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GENERAL

Analysis of U.S.-Soviet Arms Reductions, 1990's Outlook

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[Article by Xia Yishan (1115 5030 0810): "Reasons Behind U.S. and Soviet Arms Cuts and Outlook for the 1990's"]

[Text] During the last half of the 1980's, arms control talks between the United States and the USSR moved from arms control to a new stage of arms reductions. This was the result of major changes in the economic, political, military, and scientific and technical factors that propelled the arms race between the United States and the USSR for the more than 40 postwar years. During the 1990's, the impetus for U.S. and Soviet arms cuts may become stronger; however, there is a limit as to how far reductions can go. The arms race will go on at a low level. Because of various limitations, the talks may continue to encounter difficulties.

One major feature of postwar international politics was the antagonism and rivalry between the United States and the USSR; military confrontation and striving for military dominance were also the main aspects of this antagonism and rivalry. This led to a postwar arms race that went on for more than 40 years, escalating step by step. While engaging in an arms race, the United States and the USSR conducted virtually nonstop military control talks for the purpose of weakening the other side, strengthening themselves, controlling the scale of competition, and drawing up ground rules for the competition. They also reached more than 20 bilateral and multilateral agreements. Nevertheless, none of these agreements (the "Treaty to Ban Biological Weapons" being a special exception) went beyond arms control. They did not reduce a single weapon. The history of the postwar 40 years of U.S. and Soviet military control talks is a history of arms control. During the mid-1980's, however, a critical change occurred in the U.S.-Soviet military control talks. The signing of the intermediate-range missile treaty in December 1987 marked the beginning of a new period in which talks between the United States and the USSR about arms control became talks about arms reduction. How did this new period come about? What were the reasons? What will be the trend of developments during the 1990's? This article discusses some views on these questions.

The Historical Process of a Shift From Arms Control to Arms Reduction

The postwar arms race between the United States and the USSR unfolded primarily in the field of nuclear weapons: thus, arms control talks between the United States and the USSR during the past more than 40 years have focused on nuclear arms. U.S.-USSR arms control talks during the period from the end of the war until the

mid-1980's may be roughly divided into three stages. The first stage was from the end of World War II until 1959. The United States and the USSR held endless discussions in the UN arms reduction negotiations organization, mostly about controlling and banning atomic weapons and the establishment of an international supervisory organization. Since the USSR did not possess the atomic bomb during the early period, and since the nuclear forces of the two sides were out of proportion later on, after the USSR did have the atomic bomb, no basis existed for reaching an accord. Thus, the talks produced no results whatsoever. The second stage was from 1960 to 1969. By the early 1960's, the USSR gradually closed the nuclear weapons gap with the United States, and began to possess a retaliatory second-strike capability against the American homeland. This resulted in both the United States and the USSR living in nuclear terror. This provided the possibility of reaching an accord on "partial measures" for U.S. and Soviet arms cuts. It was during this stage that the United States and the USSR signed the "U.S.-USSR Hot Line Agreement," the "Antarctic Treaty," the "Outer Space Treaty," the "Partial Nuclear Test Ban Treaty," and the "Nuclear Weapons Nonproliferation Treaty." These treaties only touched the "fringes" of arms reduction issues, and they did not address U.S. and Soviet arms development per se. The third stage was from 1969 until the mid-1980's. By the end of the 1960's, U.S. and Soviet nuclear strength reached rough balance. It was at this time that the United States presented the "Mutual Assured Destruction Strategy," in a decision to accept nuclear parity with the USSR, which allowed the USSR to feel "equal" and "equally secure" as a means of containing the USSR's momentum in developing nuclear strength. The USSR also wanted to control the number of strategic nuclear weapons in order to be able to concentrate its energies on surpassing the United States in quality. During this period, the United States and the USSR not only reached agreements such as the "U.S.-USSR Agreement on the Prevention of Nuclear War," the "Treaty Banning the Implanting of Nuclear Weapons and Other Weapons of Mass Destruction on the Sea Bed, Under the Sea, and Under the Land" as "partial measures" for arms reduction, but they also signed the "U.S.-USSR Strategic Arms Limitation Treaty I," the "U.S.-USSR Strategic Arms Limitation Treaty II," "Weapons," and the "U.S.-USSR Antiballistic Missile Systems Limitation Treaty" (later signing another revised accord), all of which had a further bearing on the two sides' development of nuclear weapons themselves. The first two treaties played some role in limiting the development of strategic weapons, but the role was limited. This was because only upper limits were set on strategic weapons, with no reductions whatsoever; most of the limitations had to do with quantity, and had virtually no bearing on quality; and they had a bearing only on nuclear weapons delivery systems without touching on warheads and blast equivalent weights. Subsequent treaties had little effect in limiting strategic defense systems, because antimissile techniques had not yet developed at that time to the

point of deploying antiballistic missile systems, and because such treaties conflicted with the "mutual assured destruction strategy." Therefore, the United States did not subsequently deploy even one antiballistic missile system, and the USSR retained its antiballistic missile system around Moscow.

The foregoing shows that the last half of the 1940's and the 1950's was a stage of "spinning around in vain" in U.S.-USSR arms control talks; the 1960's was a period of "partial measures" in arms reduction; and the 1970's was a period in which arms control accords were reached.

During the 1980's changes began to occur in arms control talks between the United States and the USSR. In 1985, the United States and the USSR began whole-sale talks on intermediate-range nuclear weapons, strategic nuclear weapons, and outer space weapons. After only slightly more than two years time, the United States and the USSR scored breakthroughs, first on intermediate-range and intermediate short-range weapons, signing in December 1987 the Intermediate-Range Missile Treaty, which provided for the total destruction within three years of intermediate-range and intermediate short-range land-based ballistic missiles and cruise missiles making up four percent of total U.S. and Soviet nuclear ballistic missiles. This marked the first time that the United States and the USSR reached agreement on the destruction of nuclear weapons, and the work of destroying these categories of nuclear weapons is proceeding smoothly. At the same time, talks between the United States and the USSR on a 50-percent reduction of strategic nuclear weapons scored major advances, with accord being reached on major portions of a treaty text. Beginning in March 1989, talks between the United States and the USSR, mostly about reduction of opposing conventional forces in Europe, got off to a fast start. Within only slightly more than a half year's time, agreement in principle was reached on categories to be reduced, guidelines for the breakdown of categories to be reduced, and inspection measures. At a conference to negotiate arms reductions that drafted the text of a treaty to ban chemical weapons, differences were gradually narrowed between the United States and the USSR, which possessed the largest chemical weapons arsenals, and other countries. The signing of this three-part treaty will likely occur during the first half of the 1990's, and some countries may sign it within the next one or two years. Talks between the United States and the USSR on arms control have entered a new era of arms reduction.

Reasons for U.S. and USSR Arms Reductions

The shift of the United States and the USSR from arms control to arms reduction during the last half of the 1980's was no accident. It did not result from any intent or the promotion of any policy by U.S. and Soviet leaders, but rather from the tremendous and profound changes that have occurred since the war and particularly during the past more than 10 years in the condition of the United States and the USSR themselves, and in

the international climate in which they found themselves. These changes generated a powerful economic, political, military, and scientific and technical impetus that gave them no choice but to decide to reduce arms.

1. Economic Reasons: The arms race between the United States and the USSR following the war was founded on a certain economic strength, but now the economic strengths of the United States and the USSR are relatively weak and no longer able to bear the heavy burden of a high-level arms race. This is the economic reason that forced the United States and the USSR to arms reduction.

During the immediate postwar period, the United States, which rose to power and position during the war, possessed great economic strength. Its gross national product was nearly half the world total. It relied on the three great pillars of advanced technology, a strong dollar, and supranational corporations to control world trade, currency, and investment markets in the establishment of economic hegemony. However, beginning in the 1960's, the United States began a process of gradual decline, and the three great economic pillars began to waver. Although the United States still maintains a certain technical superiority, its absolute advantage was lost long ago. The position of the U.S. dollar as an international reserve currency declined dramatically, and the postwar international financial system centering on the U.S. dollar has gradually crumbled. The power of U.S. supranational corporations has greatly waned by comparison with the 1950's. U.S. economic strength and financial condition are no longer what they were. U.S. gross national product is only approximately 23 percent of the world total. The United States has changed from the world's largest creditor nation to the world's largest debtor nation. As of the end of 1988, its net external debt stood at \$532.5 billion; its domestic debt stood at \$2.6 trillion, and its interest payments during 1988 reached \$214.1 billion, or 20 percent of government expenditures. Both deficits remain high and show no decline. In 1988, the government deficit reached \$155.1 billion, and although the trade deficit was less than in 1987, it still stood at \$137.34 billion yuan. The decline of the United States resulted from uneven world political and economic development, but its unrelenting arms race with the USSR accelerated the process of decline. During the eight years of the Reagan administration alone, cumulative military expenditures reached \$1,873.7 million. In 1988, military expenditures amounted to more than six percent of gross domestic product, and 27 percent of federal financial expenditures. Because the U.S. economy was unable to bear such a heavy arms burden, the United States cut its military budget for five years in a row. Between 1985 and 1988, actual U.S. military expenditures declined 10 percent. During 1988, 37,000 personnel were cut from the armed forces. The United States began to reduce the number of domestic military bases, and was considering further cuts in its network of foreign military bases. It asked Western Europe and Japan to "share more responsibility for defense."

Recently, the U.S. Department of Defense planned to cut military expenditures approximately \$20 billion in 1991, and it was preparing to make cuts in military expenditures totaling \$180 billion between 1992 and 1994. In this regard, the Army alone plans to cut 200,000 personnel, or one-seventh of its organization.

Following the war, the USSR was the world's second economic power and, for a fairly long time, its economy grew far faster than that of the United States. Thus, the USSR gradually narrowed the gap with the United States. According to official Soviet statistics, its national income in 1950 was only 30 percent that of the United States. By 1965, it had climbed to 59 percent, and in 1975 it was 67 percent that of the United States. The USSR relied on this ever-increasing economic strength to compete with the United States in the arms race. In the 20-year period from 1961 through 1980, Soviet military expenditures increased more than eightfold. During the past 10 years, Soviet military expenditures amounted to between 13 and 15 percent of national income and more than 30 percent of government expenditures. This heavy military expenditures burden was a major reason for the economic stagnation and decline of the USSR since the 1970's. During the 1980's, Soviet economic strength declined to half that of the United States. Its percentage of world gross national product fell from 16.5 percent in 1970 to 12.3 percent in 1986. In 1987, Japan surpassed the USSR economically, the USSR dropping from second to third place in the world. Except for certain kinds of science and technology having to do with military matters, the USSR's overall level of science and technology lagged 10 to 12 years behind the United States, and this gap continues to widen. Soviet agriculture lagged for a long time, grain output remaining at around the 200-million-ton mark. When Gorbachev came to power in 1985, the Soviet Union's economy was already in a "precrisis state." After more than four years of perestroika, not only has the USSR's economy shown no improvement whatsoever, but it has become worse. Today it is in financially straitened circumstances. In 1989, the government deficit stood at 120 billion rubles, or one-fifth of national income. Its external debt increased. In 1989, its internal debt was 400 billion rubles, and its external debt was \$55 billion. Inflation intensified, food and daily necessities were in seriously short supply, and the people's standard of living generally declined. This situation gave rise to social unrest, and social unrest further intensified economic difficulties. During the third quarter of 1989 alone, coal miner strikes created direct economic losses of 3 billion rubles, and, in order to improve miners' working and living conditions, the state decided to spend 5 billion rubles. The USSR decided to obligate an additional 10 billion rubles during 1989 and 1990 for the import from abroad of daily necessities, and it was preparing to obligate a huge sum of money to import food from abroad. The chairman of the Soviet Council of Ministers, Nikolay Ryzhkov, recently acknowledged that the USSR's economic situation was "extremely difficult, extremely complex, and filled with contradictions."

Recently, U.S. Secretary of State James Baker expressed doubt that the Soviet Union is the world's third economic power. U.S. congressmen believe that the USSR's economy may be at least seventh in the world. Faced with an economic crisis, the USSR froze military expenditures during 1987 and 1988. In December 1988, Gorbachev had no choice but to announce that the USSR had decided on a unilateral reduction of 500,000 in its armed forces, or 12 percent of the total number of Soviet military personnel, within two years, thereby cutting military expenditures 14.2 percent. On 13 August 1989, Dmitriy Yazov, Soviet minister of defense, announced that the USSR planned to cut military expenditures 50 percent by 1995.

2. Political Reasons: The political driving force behind the arms race between the United States and the USSR during the past more than 40 years was the bipolar system (also known as the Yalta pattern) shaped after the war. This meant that two great East and West military blocs formed following the war headed by the United States and the USSR, and caused sharp military, political, economic, and ideological opposition between these two large military blocs, and the dominant position of military confrontation in this overall opposition. The dawning of a new day after 45 years generated tremendous changes in the political factors driving the arms race between the United States and the USSR.

First was the accelerated development of multipolarity in the world, and the crumbling of the bipolar system shaped following the war.

Economically, the world was already multipolar. In the Western world, Japan rose rapidly. In 1950, its gross national product was only five percent that of the United States, but by 1988, it was 58 percent that of the United States. It was first in the world in international balance of payments surplus and foreign exchange reserves. The development of Western Europe attracted attention. In 1971, the EEC's gross national product was 83 percent that of the United States, rising to 111 percent in 1987. Its trade accounted for two-fifths of total world trade volume. The Western economy evolved from postwar U.S. domination to a triumvirate composed of the United States, Japan, and Western Europe. In the Eastern world, for a long time, the USSR relied largely on shipments from Eastern Europe of raw materials and energy at cheap prices, and the shipment into these countries of industrial goods unable to compete in Western markets, in order to maintain the existence of the Council for Mutual Economic Assistance and to maintain control over Eastern Europe. The USSR's annual economic subsidization of Eastern Europe reached between \$11 billion and \$15 billion. Today, the USSR lacks the strength to satisfy the tremendous demands of the East European countries whose economic difficulties become more serious with each passing day. It has no choice but to let go, or even to encourage them to seek assistance from the West. The

cohesiveness of the Council for Mutual Economic Assistance has diminished, and the influence of the USSR as an economic pole in the world has declined markedly.

With the relative weakening of the strength of the U.S. and Soviet economies, centrifugal tendencies in both the Eastern and Western blocs have become stronger. Increasingly, the allies of both the United States and the USSR act according to the interests and desires of their own peoples. In the West, Japan and Western Europe began to demand a military and political position commensurate with their economic strength, and contradictions with the United States increased. For example, during the first half of 1989, the Federal Republic of Germany, together with some small West European countries, had a disagreement with the United States over the modernization of short-range missiles. The UK recently refused a U.S. request to deploy B-52 nuclear bombers in the UK. In the East, during the last half of 1989, sudden changes occurred in the political situation of some East European countries. The USSR has already lost its ability to control Eastern Europe. Today, both the Warsaw Pact and NATO are becoming increasingly lax politically, and the bipolar system is headed for collapse.

Second, the sharp opposition between the United States and the USSR has moderated. The United States and the USSR are increasing dialogue in order to solve differences between them, and they have begun to cooperate in solving problems of common interest. The relaxation in relations between the United States and the USSR began after Gorbachev came to power in 1985; 1988 was a turning point; and 1989 saw further deepening. This relaxation is different from the two relaxations that occurred in the 1960's and 1970's. Both of those relaxations were limited (mostly to political matters) and partial (mostly in Europe), but the current relaxation includes arms control, regional clashes, human rights, and bilateral relations. This relaxation grew out of common U.S. and Soviet interests, but, primarily, the initiative and concessions of the USSR, which was weaker, played a key role. Numerous "hot spot" area problems are heading toward political solution, U.S. and Soviet differences about human rights issues are gradually being bridged, and bilateral relations between the two countries are steadily improving, largely as a result of the USSR's flexibility and concessions. As a result of one Soviet concession after another on arms reduction issues, the United States and the USSR signed the Intermediate-Range Missile Treaty. After Gorbachev announced a unilateral 500,000-man cut in the armed forces, in less than one year the USSR took a series of dazzling unilateral initiatives to cut its armed forces. Examples include the following: A decision to reduce unilaterally its short-range nuclear weapons in Europe; announcement of the beginning of elimination of chemical weapons; announcement of a reduction in the military strength of its Pacific fleet; dismantling of tactical nuclear weapons capable of hitting northern Europe; announcement of removal of all six G-class submarines from the Baltic Sea before the end of 1990, and the

destruction of nuclear missiles on these submarines; acknowledgment that the Krasnoyarsk radar station violated the 1972 antiballistic missile treaty, and a decision to completely dismantle it, and so forth. In talks on the reduction of conventional forces in Europe and on reducing U.S. and Soviet strategic weapons, the USSR made repeated concessions. Recently, the USSR again proposed that agreement on the banning of outer space weapons would no longer be a condition for the signing of an agreement between the the United States and the USSR to reduce strategic weapons. Through the foregoing actions the USSR demonstrated its willingness to carry out strategic cutbacks and arms reductions, changing its "enemy image" in the West. Most public opinion in Western Europe and the United States is that the USSR "military threat" has passed. This has brought about changes in U.S. policy toward the USSR. After half a year of "policy discussions," on 12 May 1989 Bush proposed to the USSR a policy that goes "beyond containment." At the center of this policy is largely the use of peaceful methods to "encourage the USSR to move toward becoming an open society," "enabling the USSR to blend into international society." In October 1989, the USSR further relaxed its policies toward Eastern Europe, openly announcing abandonment of the "Brezhnev Doctrine" of interference in Eastern Europe. On 23 October, USSR Foreign Minister Eduard Shevardnadze declared that the USSR acknowledged the absolute right of free choice of European countries. On 25 October, Gorbachev reiterated that "the events taking place in these East European countries today are the internal affairs of countries in this region," and that "the USSR has no right to interfere in the internal affairs of these countries." On 29 October, the chairman of the Supreme Soviet Alliance Institute [lianmeng yuan 5114 4145 7108], Primakov, stated further that if the Eastern European countries want to leave the Warsaw Pact, the USSR will not prevent them. This further change in Soviet policy toward Eastern Europe caused the United States to change from looking on from the sidelines to offering support for perestroika in the USSR. U.S. Secretary of State Baker said twice that the United States desires to "give active support to Gorbachev's economic and political reforms" to help him get out of a difficult position, and he proposed sending economics experts to the USSR. Although the United States and the USSR have their own expectations on European issues, they both hope that East European reform will be carried out with sure steps and that the situation will not get out of control, in order to avoid an adverse effect on the present pattern in Europe. They have begun to compose their views and coordinate their actions on East European issues, with a certain degree of cooperation. In talking about the huge changes that have taken place in relations between the United States and the USSR, Baker said on 23 October that, as compared with the period of tension, relations between the United States and the USSR today were as "different as heaven and earth."

Third, the position of military factors in national security and international politics declined. This was determined by the following factors: 1) Reliance on warfare to deal with international affairs and solve international disputes is becoming more and more unworkable. The U.S. defeat in Korea and Southeast Asia and the Soviet Army's forced withdrawal from Afghanistan are examples. 2) Not only did the arms race between the United States and the USSR not achieve anticipated goals, but it moved in a direction opposite to anticipated goals. Their main goal in the arms race was to maintain their superpower status in the pursuit of world hegemony. The result of the arms race, however, was the waste of large amounts of manpower and material resources, which hampered economic development. National power was weakened, ultimately threatening their superpower status. Soviet scholars acknowledge that, for five years after 1979, military expenditures reached more than \$1 trillion. U.S. scholars estimate that U.S. postwar military expenditures could build another United States. By contrast, Japan, whose military expenditures were not large for various reasons, rapidly developed economically, vaulting to the position of the world's second economic power. Today, both the United States and the USSR admit that they became "prisoners of the arms race." 3) An all-encompassing national power race in which economics and science and technology are the main components is unfolding throughout the world. The strength or weakness and the rise or fall of a country will be determined by the results of this race. Therefore, both the United States and the USSR must concentrate their main energy on the development of their economies and on science and technology. Reduction of military expenditures is a top-priority task for both the United States and the USSR. The USSR, unless it can quickly get out from under its heavy military expenditures burden, will before long sink to the status of a second- or third-rate country. People in the Soviet Union fear that the nightmare of being a "superpower militarily and an Upper Volta economically" may become a reality. For the United States, unless military expenditures are curtailed to bring them in line with national strength, it will face the specter of going the way one imperial power after another has gone throughout the history of the world. In view of the foregoing, both the United States and the USSR have advanced the idea of "economic security," by which is meant that a nation's security depends primarily on ensuring its economic strength. Economically weak countries, no matter how militarily strong, can come under the control of others, and thus are not secure. As a result of the rise in its position in national security and international politics, which stems from various economic and scientific and technical factors, a substantial number of people in the United States today believe that the main threat to the United States is not the USSR but the ever more economically powerful Japan.

3. Military Theory Reasons: The postwar theories that supported and stimulated the arms race between the United States and the USSR were principally two: One

was the deterrence theory, and the other was the power balance doctrine. However, these two theories have gradually begun to be replaced by the "defensive strategy" and the "theory of reasonable sufficiency of military forces" proposed by the USSR, as well as the "low-level balance" thinking that the United States and the USSR jointly recognize. These are the military theory reasons that drive U.S. and Soviet arms reductions.

The deterrence theory was first put forward by the United States. It meant that at that time only the building of a reliable nuclear deterrent force would make the enemy believe that if it wanted to take actions, the price it would pay would exceed the benefits received, thereby intimidating the enemy and causing him not to dare to launch an attack. According to this theory, attainment of deterrence required the possession of reliable nuclear forces, possession of the will to use these forces, and letting the adversary know that you had these forces and were willing to use them. When the United States possessed a first-strike capability against the USSR, it threatened to carry out "large-scale retaliation" against the USSR, thus attaining the goal of deterrence. After it lost first-strike capability, it turned to reliance on "mutual assured destruction" to attain the goal of deterrence. After the USSR possessed nuclear weapons, particularly after it possessed a second-strike counterattack capability, it also pursued the deterrence theory. Not only did it make a show of nuclear military strength by making verbal nuclear threats, but it also accepted in practice the U.S.-proposed strategy of "mutual assured destruction." It signed the antiballistic missile system treaty with the United States, which exposed both sides to the threat of a "mutually assured destruction" nuclear attack over a broad area except for individual places, so that neither side would dare launch a nuclear war without careful consideration. In order to increase the reliability of "assured destruction" in a nuclear attack, the United States and the USSR vied with each other to improve their nuclear deterrence capabilities. Whenever one side bested the other in some particular, the other side would strive to catch up and surpass it. This caused the arms race to sink to an endless vicious cycle.

The balance of forces doctrine was also first proposed by the United States. Its basic reasoning was that only by maintaining a strategic balance (also termed a "deterrent balance of power" and a "balance of terror") between the United States and the Soviet Union was it possible to make either side consider in advance the possibility and consequences of the opponent's counterattack. Ever since the war, the United States has intensified the arms race under the guise of maintaining strategic balance. During the 1950's, the United States used the pretext that its "bombers were outmoded" to produce large numbers of strategic bombers. In the 1960's, using the "missile gap" as a pretext, it began all-out development of land-based intercontinental ballistic missiles. Subsequently, it used a substantially identical reason to develop nuclear submarines, multiple independently targeted warhead missiles, and cruise missiles. By the end of

the 1960's, the United States and the USSR were roughly even in quantity and quality of strategic nuclear weapons, and this situation did not change thereafter. In October 1981, however, Reagan used the pretext that the USSR had surpassed the United States in strategic nuclear forces to announce a large-scale strategic nuclear weapons modernization plan. He decided to appropriate \$2,220 [as published] over a period of six years to modernize the "triad" nuclear force. The USSR also regarded maintenance of strategic parity as an important principle in ensuring national security and the development of armaments. The difference between the USSR and the United States was that before the USSR reached parity with the United States it boasted that its nuclear forces were superior to those of the United States and that it could destroy the United States in one blow. The USSR's goal in doing this was, to use the words of Nikita Khrushchev, "they threaten us with war, and we likewise threaten them with war." It was not until the early 1970's that Leonid Brezhnev changed this tune. He declared that strategic balance existed between the United States and the USSR, and he also emphasized that it was the existence of this balance that made it possible to avoid a nuclear catastrophe; thus the United States would not be allowed to destroy this balance. Ever since the war it was actually with the goal of achieving and maintaining balance that the USSR carried on an arms race with the United States. During the period when the United States was dominant, the USSR strove to catch up with the United States. After the United States and the USSR achieved a balance of power, the USSR wanted to maintain the balance, while continuing to place military work "before all other work." The USSR wanted to develop weapons that the United States did not have, and it wanted even more to develop the weapons that the United States did have. Beyond this, major differences existed between the United States and the USSR in the concept and standards for a balance of power. The United States emphasized a complete balance of power with the USSR, meaning it wanted to attain a balance of power in every category. The USSR emphasized not only maintenance of a balance of power with the United States alone, but also with the entire Western world. Not only did it consider the balance of forces, but it also had to considered the Soviet Union's unfavorable geographic position, and that the USSR was surrounded by numerous hostile countries. In considering the balance of power, both sides allowed themselves a considerable insurance factor, that is, the balance they wanted favored themselves more. Thus, attaining and maintaining the balance of power actually became the pursuit of dominance. The result was that all boats rose as the water rose, and the arms race between the United States and the USSR came to be carried on at an increasingly high level.

After coming to power in 1985, Gorbachev openly criticized the deterrence theory, advocating a low-level balance of power. In a political report to the 27th CPSU Congress in February 1986, he said that "the Soviet Union's military theory has but a single defensive goal,"

and that "military power will be held within the limits of reasonable sufficiency." This was what people subsequently termed the "defensive strategy," and the "reasonable sufficiency doctrine of military forces." This new military theory was reflected in a concentrated way in a document titled "On a Military Theory for the Warsaw Pact Countries" drawn up in May 1987 by the Warsaw Pact Political Consultative Committee. Subsequently, Soviet leaders and the armed forces made another elaboration, which is capsulized in four articles as follows: 1) The defensive nature of military theory. Military forces should be sufficient to ensure the security of the homeland and to defend against aggression by foreign enemies, but not sufficient to launch an offensive. 2) A low level of balance. Advocacy of a reduction in the level of military confrontation to enable military forces to maintain the minimum level needed for defense. Thus, a tremendous reduction in armaments would be required to realize the minimum level of balance. 3) "Reasonable sufficiency" standards would be determined largely by the opponents' actions, that is, the attitude of the opponent toward arms reduction and his level of arms development. 4) Not to regard any country or the people of any country as an enemy. The USSR's new military theory was a refutation of the theory of deterrence and the theory of a balance of forces. When first proposed, Western countries regarded it as a propaganda ploy such as the USSR was in the habit of using and turned it down. Later, when the USSR began to implement this theory in practice, the West, including U.S. military circles, acknowledged that the USSR's military strategy had changed from offensive to defensive, and that the USSR had gone from verbal approval of arms cuts to really desiring arms cuts.

The United States has not yet abandoned the deterrence theory as a back-up force, but this theory has changed markedly from what it was at the outset, as follows: 1) Diminished reliance on nuclear weapons. Formerly, the United States depended primarily on nuclear weapons, particularly strategic nuclear weapons, for deterrence, but today this has changed to employment of both nuclear deterrence and conventional deterrence. Conventional deterrence relies primarily on the superior quality of conventional weapons, strengthening of cooperation with the 43 countries with which the United States has signed security accords—particularly West European allies and Japan—and maintenance of forward deployments for a common effort to defend against the possibility of a Soviet attack. 2) Continued practice of a strategic defense plan, using an offensive deterrence theory of "using attack to control attack, and using attack to defend," a gradual shift to a strategic theory of "readiness to both attack or defend" that relies on both offensive strategic nuclear weapons and on a strategic defense system. Despite economic, technical, and political difficulties in moving ahead with the strategic defense plan, and in putting into effect deployment plans originally conceived with the goal of complete defense, the United States is trying to begin phased deployments during the 1990's. 3) Acceptance of a low-level deterrent

balance of power, agreeing to maintain a low level of parity with the USSR in both nuclear weapons and conventional weapons, and emphasizing the defensive nature of deterrence. In this regard, Henry Kissinger proposed the "deterrent arms reduction" concept by which troops would be reduced to only the number needed for deterrence. Another theory is the "provide only deterrence" theory, which means huge reductions in nuclear weapons, and no modernization of nuclear weapons, only maintaining sufficient force to launch a second-strike counterattack against Soviet cities. Postwar changes and adjustments in U.S. and USSR military theories have been made in response to each other. U.S. military theories will not be discarded, but they will move gradually closer to the new military theories of the USSR.

4. Technology Reasons: After the war, military technology developed by leaps and bounds, ceaselessly driving the arms race to new heights. During the 1940's and 1950's, first the atomic bomb and then the hydrogen bomb were successfully exploded, and the development of nuclear weapons became the main component of the arms race between the United States and the USSR. During the late 1950's, artificial satellites and ballistic missiles were successfully launched, and the focus of the arms race between the United States and the USSR shifted to the development of intercontinental ballistic missiles. During the early 1970's multiple independently targeted missile technology made its appearance, and the United States and the Soviet Union competed to develop multiple independently targeted warheads. With the advent of the 1980's, as spaceflight, remote sensing, lasers, directed energy, microelectronics, and electronic computers developed, the arms race between the USSR and the United States began to swing toward nonnuclear high-technology weapons and space weapons. Thus, the advent of new postwar technologies continued to provide impetus to the arms race between the United States and the USSR. However, the development of military technology to its present level also makes it possible for the United States and the USSR to make arms reductions.

First, nuclear weapons have developed as weapons to the reverse of what they were, becoming weapons that cannot be used. The development of postwar technology has generated a profound revolution in weapons systems. This is that nuclear weapons have replaced conventional weapons as the main means by which the superpowers ensure their national security and realize external strategic objectives. After more than 40 years of development, the destructive force of U.S. and Soviet nuclear weapons and their ability to inflict casualties have reached a level with which no conventional weapons can compare. Today, the United States and the USSR possess approximately 50,000 nuclear bombs with a total force equivalent to approximately 15 billion tons of TNT, or approximately 1 billion times that of the atomic bomb that the United States dropped on Hiroshima in 1945 that killed or wounded 360,000

people. The United States and the USSR have respectively 14,600 and 11,700 strategic nuclear bombs capable of reaching each other's territory, with a respective equivalent of 3.8 billion and 5.8 billion tons, enough to wipe each other out several times over. Should the United States and the USSR fight a nuclear war, not only would "the first to use nuclear weapons be the second to die," but the entire globe would be affected. The reasons are as follows: 1) U.S. and Soviet nuclear weapons are deployed in tens of countries and regions in Europe and Asia, and submarines carrying nuclear weapons cruise the world's major oceans. Should a nuclear war erupt suddenly, these places would become "nuclear targets." For this reason, a nuclear war between the United States and the USSR could not be limited to the soil of the two countries, but would spread to the whole world. 2) The radiation fallout from nuclear explosions would drift everywhere, raining disaster on all mankind. The aftermath of a nuclear reactor accident at the Chernobyl nuclear power station in the USSR attests to this point. 3) A nuclear war would produce disastrous consequences for the planet's ecological environment. Results of a computer simulation experiment that a number of U.S. scientists conducted in 1983 show that a nuclear war having an explosive force of only 1 million to 10 million tons could bring about major changes in the earth's climate and meteorology. The nuclear explosions and the ensuing large forest fires and conflagration of cities would churn large quantities of dust and smoke into the atmosphere, and a portion would enter the stratosphere where it would drift for a long time, forming a dust and smoke screen high above the earth that would block the sun's rays and cause a drop in the earth's temperature by tens of degrees to produce a cold and dark "nuclear winter" that would last several months. In addition, the explosion would produce large amounts of carbon dioxide that could damage the ozone layer that blocks most of the sun's ultraviolet radiation. After the "nuclear winter," an "ultraviolet radiation summer" could occur on the earth. Thus, leaders of the United States and the USSR have publicly announced that a nuclear war cannot be fought. Under these circumstances, nuclear weapons can be used only as deterrent weapons at most, and cannot be used to fight a real war.

Second, modern military technology has developed to the point where it has gradually created the material prerequisite for nonnuclear weapons to take the place of nuclear weapons. Today, the power, speed, range, and target accuracy of some high-technology nonnuclear weapons approaches that of nuclear weapons. The capabilities of these kinds of weapons will be improved in the future. A report from the U.S. Department of Defense Experts Committee said that by 1995 nonnuclear warheads with an equivalent weight of only 1,000 pounds will be able to penetrate the ground to destroy intercontinental ballistic missiles ready to be launched from underground silos. They will have a power equivalent to an aboveground explosion of a 100-million-ton nuclear bomb.

Finally, the development of military technology provides the possibility of solving inspection problems in arms reduction. Inspection has always been a major obstacle to arms control talks between the United States and the USSR. Some signed accords failed to obtain approval because the U.S. Congress emphasized the unreliability of inspection methods. This was the case with the "Treaty Between the United States and the USSR Limiting Underground Nuclear Weapons Testing," the "Treaty Between the United States and the USSR on Underground Nuclear Explosions for Peaceful Purposes," and the "Strategic Arms Limitation Treaty II Between the United States and the USSR." Now very great strides have been made in inspection technology. For example, satellites can distinguish objects on the ground measuring several inches, and seismic methods can detect several-thousand-ton equivalent nuclear explosions, etc. This makes it possible for countries that employ these techniques for supervision to ensure that treaties are lived up to. Furthermore, the USSR has made major concessions on the inspection issue, not only long ago accepting on-the-ground observation, but recently also accepting "open skies." Therefore, the inspection issue is no longer an insurmountable obstacle to gaining approval of arms reduction agreements.

Trend of Developments During the 1990's in the Course of U.S. and USSR Arms Reduction

During the 1990's, progress in U.S. and Soviet arms reduction will continue, the scope of reductions will widen, and their extent will increase. Nevertheless, there will be definite limits to the reduction, and the arms race will be carried on at a low level. Talks will be limited by various factors, and progress will be difficult. The 1990's will be a period of change from bipolarity to multipolarity in the world pattern. There will be many changes in the situation that are difficult to predict, so there will be some unpredictable factors in the development of arms reductions. Nevertheless, the overall trend will be increasing reduction of U.S. and Soviet armaments as the bipolar structure crumbles. Arms cuts during the 1990's may be characterized as follows:

1. Widening of the Scope and Increase in the Extent of Arms Cuts. As of now, the United States and the USSR have reached agreement only on intermediate-range and intermediate short-range missiles. In the future, the scope of cuts will widen to all types of weapons: nuclear weapons, conventional weapons, outer space weapons, chemical weapons, and biological weapons. It will also include all types and all aspects of any given weapon. Among nuclear weapons, for example, not only will strategic weapons be cut, but tactical weapons will be cut too; not only will carrier vehicles be destroyed, but nuclear warheads will be destroyed as well; not only will land-based and air-based weapons be affected, but sea-based weapons will be affected too; not only will cuts in nuclear weapons themselves be addressed, but "associated measures" will also be addressed, such as limitations on nuclear weapons tests and the prevention of nuclear weapons and missile proliferation. On 4

October, James Baker announced achievement of arms reduction agreements with the USSR as a means by which the United States could help Gorbachev achieve reforms. Consequently, agreement may soon be reached in talks between the United States and the USSR on a 50-percent cut in strategic weapons, and talks about East and West cuts in conventional forces in Europe. Talks underway between the United States and the USSR about an agreement to cut strategic weapons, not including large numbers of strategic weapons in storage and sea-based strategic weapons, will mean a reduction of between 30 and 35 percent rather than an actual 50-percent cut. The excess strategic nuclear weapons that the United States and the USSR have are far more than are needed for nuclear deterrence. After agreement is reached in the talks now in progress on conventional weapons in Europe, the surplus weapons in Europe will also be far more than are needed for defense. Therefore, once agreement is reached in these two talks, both sides will not stop at this; they will make further cuts in both strategic nuclear weapons and conventional weapons in Europe.

2. Definite Limits on Arms Cuts. U.S. and Soviet arms cuts during the 1990's will have definite limits. Both will keep nuclear weapons and conventional weapons far larger in number than other countries. The reasons are as follows: 1) Generally speaking, the bipolar system will not completely expire during the 1990's; the United States and the USSR will still be adversaries in competition politically, militarily, and ideologically, who will have to maintain a certain military strength. 2) Although the role of military factors will continue to decline in international politics during the 1990's, it will not decline to a point where it is dispensable. Although military power will no longer be the main characteristic of superpower strength, it will be an indispensable characteristic. For the USSR in particular, which has lost its position as the world's second economic power, if it also loses its position as a world military power, it will not be able to continue to pose as a superpower. 3) International politics during the 1990's will become increasingly complex and go far beyond simple confrontation between East and West. The security challenges that the United States and the USSR will face, particularly the United States, will not come only from the other party, but also from the regional military powers that are now appearing and from the increasingly intensifying four major threats posed by "weapons proliferation, armed insurrection, terrorism, and drug smuggling." Although the United States has increased the use of economic and political means to deal with regional security threats, nevertheless, the use or the threat to use military forces will remain a mainstay of U.S. local security policy during the 1990's. In addition, Japan's ever-increasing military strength, possession of nuclear weapons by the UK, France, and China, and the beginning of joint military self-reliance in West European countries are important considerations that both the United States and the USSR will have to ponder in carrying out arms reductions.

3. The Arms Race Will Not Disappear, But Will Go on at a Low Level and Shift to Quality. The arms race between the United States and the USSR will not disappear during the 1990's, but will continue in concert with arms reductions. The fundamental reason for this is that so long as the bipolar system continues to exist, the United States will be unable to abandon its security policy in which "deterrence" is the centerpiece, and its military strategy in which "flexible response" is the prime ingredient. Both "deterrence" and "flexible response" are backed by military force. The USSR expressed opposition to "deterrence theory" and has announced pursuit of a policy of "defensive strategy," and "reasonable sufficiency of military forces"; nevertheless, how it will carry out these policies will, in the final analysis, be decided on the basis of U.S. actions. The USSR cannot sit idly by without reacting and watch the United States destroy military parity. However, the momentum of U.S. and USSR arms reduction will increase, and the level of the arms race will diminish. It will also shift from quantity to quality, with mostly the development of nonnuclear new-technology weapons.

4. Progress in Arms Control Talks Will Continue To Be Very Difficult. U.S. and USSR arms reduction is already the trend of events, but to tell the truth, it will be exceedingly difficult. This is for the following reasons: 1) The types of weapons to be cut are numerous and jumbled; making calculations is difficult; inspections are not easy, and in some talks (such as talks on reduction of conventional weapons in Europe, and talks about chemical weapons at the Geneva Conference to Discuss Arms Reduction), many countries take part, their views cannot be easily reconciled, and the talks are rather time consuming. 2) In both the United States and the USSR, forces exist that oppose arms reductions. In the United States, in particular, a huge military and industrial complex and a conservative faction that does not want arms cuts exist. 3) Neither the United States nor the USSR can completely abandon the traditional negotiation strategy of weakening its adversary and strengthening its own position through talks. As a result, at each step of the way in negotiations, intense haggling has to be done.

5. Some Unpredictable Factors Exist in Arms Reduction Prospects. The overall trend of development in the world pattern during the 1990's is for further weakening of the ability of the United States and the USSR to control the world. The bipolar structure and the cold war system formed following the war are verging on collapse, and various forces are realigning and combining. Profound and intense changes will occur in the world. Some situations in these gigantic historical changes are difficult to forecast. Examples include the evolution of the situation in the USSR and Eastern Europe, development of Europe's political and economic structure, and so forth. These situations will occasion some unpredictable factors for the future of arms reduction. The possibility of a speed-up in the U.S.-USSR arms reductions process cannot be ruled out, and it may also suffer setbacks and come to a halt.

International Pollution Workshop Held in Dalian

OW1204192090 Beijing XINHUA in English
1506 GMT 12 Apr 90

[Text] Dalian, April 12 (XINHUA)—An international workshop on the use of sediments in marine pollution research and monitoring opened Wednesday in the coastal city of Dalian in northeast China's Liaoning Province.

Experts from a dozen countries and regions, including the United States, Federal Germany, Thailand, the Philippines, Malaysia, Indonesia, South Korea, Kenya, and Fiji, participated in the workshop, which is slated to close April 22.

It is jointly sponsored by the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the National Bureau of Oceanography of China.

Benefits Anticipated From Hosting Asian Games

90P300154

[Editorial Report] In an article published in Shenyang's LIAONING RIBAO of 3 March on page 8, author Wen Feng (3306 7364) argues the benefits China would gain in hosting the upcoming Asian Games. His tone suggests that he is responding to criticisms of the cost and value of the enterprise. Citing Montreal in 1976 and Moscow in 1980, Wen acknowledges that hosting major international sports competitions, such as the Olympics, has sometimes been a money-losing proposition. However, he argues, there are gains to be made in terms of international prestige, national morale and pride, and tangible material benefits. In terms of international prestige, Wen argues that South Korea's hosting in the 1980's of both the Asian Games and the Olympic Games is internationally recognized as a watershed in the history of the Korean people. He reminds the reader of South Korea's Olympic slogan: "A country that can host the Olympic Games is a first-rate country." He says that although the Asian Games is not as prestigious as the Olympic Games, it is Asia's most prestigious sports meet and as host, China is presented with both the opportunity and challenge of proving itself to the world in sports and as an economic and political power. Arguing the domestic benefits, Wen says that sports meets produce the same benefits as war and calamity in that it causes a nation to develop a strong sense of unity and patriotism. Thus, says Wen, the benefits for hosting the Asian Games extend far beyond sports itself. He also says that preparations for the games are bringing material benefits in the form of new transportation facilities for Beijing, dramatically improved communications capabilities, and advanced sports facilities which improve China's qualifications for hosting the Olympic Games. Wen argues that regardless of how people now feel about hosting the games, it will benefit the country in the long run.

NORTHEAST ASIA

DPRK Criticism of U.S., ROK Over 'Tunnel' Affair*HK0104032690 Beijing RENMIN RIBAO in Chinese
21 Mar 90 p 4*

[Dispatch by Xu Baokang (1776 1405 1660): "Korean Central News Agency Authorized to Issue Statement, Pointing Out That the 'Tunnel' Affair Is a Plot To Aggravate Tension on the Korean Peninsula"]

[Text] Pyongyang, 19 March (RENMIN RIBAO)—The Korean Central News Agency was authorized to issue a statement on 18 March on the "No. 4 Tunnel" affair, pointing out that the so-called "tunnel" affair is a plot to oppose North Korea, and to aggravate tension on the Korean peninsula by South Korea. The fact that the United States and South Korea have refused to conduct "joint investigation" on the "tunnel" affair has proven that they have a guilty conscience, and are afraid lest the cat should be let out of the bag.

The statement said that at the 455th meeting of the Korean Military Armistice Commission, the North Korean side proposed to the U.S. and South Korean authorities a comprehensive and scientific joint investigation on the issue of the so-called "No. 4 Tunnel." That was a pressing and rational proposal to clarify the truth and responsibility and to relax the situation on the Korean peninsula.

The statement pointed out that the North Korean proposal, filled with sincerity, should not have been rejected by the U.S. and South Korean authorities. This has fully revealed that the charge that North Korea built a "No. 4 Tunnel" was based on sheer fabrication. If there was a "tunnel," it could have been built only by South Korea for the purpose of invading North Korea. The statement pointed out that the U.S. and South Korean authorities are using the so-called "No. 4 Tunnel" affair to start an upsurge to oppose the North, thus they have intensified the tense situation on the Korean Peninsula, aggravated the confrontation and mutual mistrust between North and South Korea, and thrown a wet blanket on the Korean nationality, who are longing for peaceful reunification. The Korean people will never tolerate such a criminal act by the U.S. and South Korean authorities.

Japanese Naval Participation in Joint Exercise Noted*OW0804200390 Beijing XINHUA in English
1438 GMT 5 Apr 90*

[Text] Tokyo, April 5 (XINHUA)—The Japanese Maritime Self-Defense Force (MSDF) will send ten vessels and 2,300 troops to participate in the five-nation Rimpac '90 joint naval exercises off Hawaii later this month.

According to a Defense Agency announcement today, the Japanese forces, scheduled to leave for the drills

Thursday, will be led by eight destroyers, including the flagship Haruna, and a submarine and a supply ship.

The Japanese convoy also includes eight P3C antisubmarine patrol planes and a host of helicopters, the agency said.

The biannual maneuvers, sponsored by the United States since 1917, are expected to bring together 50 ships, over 200 aircraft and 50,000 troops from the rim of the Pacific participants, namely, the United States, Japan, Canada, Australia and South Korea, according to a KYODO NEWS SERVICE report.

This will be the first time that South Korea takes part in the drills. South Korea will send two destroyers and 340 servicemen, the report said.

It said the United States will dispatch the aircraft carrier U.S.S. Independence, which will be based at Yokosuka in the Kanagawa Prefecture after the U.S.S. Midway is decommissioned in 1991.

The war games will be a mock battle among the aircraft carriers of the "allies" and the destroyers of the "enemy," agency officials said.

They also revealed that while Japan and the United States would be on the same side during the exercises, South Korea would be a member of the hypothetical enemy.

Mongolia's Emphasis on Stability Amid Reform Noted*OW0604130590 Beijing XINHUA in English
1219 GMT 6 Apr 90*

[Text] Ulaanbaatar, April 6 (XINHUA)—Punsalmaagyn Ochirbat, chairman of the Presidium of the Mongolian Great People's Hural, said here today it is important to ensure stability for his country.

In an interview published by today's "UNEN" newspaper, Ochirbat said that "no matter what kind of reform we would choose, it is important we ensure stability and a normal life for the people."

He said the urgent task for the country's supreme power institution is to work out laws governing reforms of the political system.

He said the draft laws on political parties and on the country's state system worked out cooperatively with the newly-formed political parties, social organizations and alliances are being discussed by the people.

"We should establish a nation ruled by law," he said, adding that if the newly-established political parties, social organizations and alliances respect the Constitution and carry out their activities within the bounds of law, state institutions at all levels should pay attention to their voices.

WESTERN HEMISPHERE

'Anti-Imperialist Tribunal' Condemnation of U.S. Noted

OW1804042390 Beijing XINHUA in English
0153 GMT 18 Apr 90

[Text] Panama City, April 17 (XINHUA)—The Panama chapter of the Anti-Imperialist Tribunal of Our America (TANA) issued a document here today denouncing the U.S. bombing of Panama during its invasion of the country last December.

This "crime must alert the world once more about the U.S. intent to dominate the world," the document said.

"Prudence advises all peoples to march together and to repudiate the attack on the Panamanians so that this barbaric history will not repeat itself," it added.

The document called for "the conscience of all so that the world gendarme, which the yankee government has become, does not use Panamanian territory to organize attacks against Cuba or another country."

The anti-imperialist tribunal asked all popular organizations throughout the world to demand that the U.S. Government "withdraw its troops and stop interfering in Panamanian affairs."

Factors in Failure of 1989 Democracy Movement

90CM0002A Hong Kong CHU-SHUIH NIENTAI (THE NINETIES) in Chinese No 242, 1 Mar 90 pp 88-91

[Article by Chin Ju-sheng (4440 0320 3932): "The Four Days When the Power of Initiative Changed Hands During the 1989 Democracy Movement—Plus a Review of 10 Years of Civil Resistance"]

[Text] It is time. After singing solemn, resounding songs to commemorate the 1989 democracy movement, everybody who is concerned about the democratic future of China has begun to quiet down and conduct a more objective review of the lessons and merits of this movement.

Was the 4 June massacre an inevitable consequence of the political situation at that time? Or was it the result of serious flaws in the movement and indecisiveness of the liberals in the party?

After carefully reviewing the daily happenings of that time, we cannot help but notice that movement leaders as well as reformists in the party wasted four days of crucial time when they could have easily taken control.

Let us take a look at what was happening then.

A Rare Historical Moment

On 16 and 17 May 1989, a demonstration participated in by over a million people erupted in Beijing. The protestors included soldiers from the General Staff Headquarters, General Political Department, General Logistics Department, and PLA Political Academy, cadres from the party's Organization Department, Propaganda Department, International Liaison Department, and Central Party School, the State Council's Ministry of Public Security, Ministry of State Security, and Ministry of Foreign Affairs, and other crucial organizations such as XINHUA NEWS AGENCY, RENMIN RIBAO, China Central Television Station, Central People's Broadcasting Station, and the Supreme People's Procuratorate. They sympathized with and supported the college students' hunger strike. In the late evening of 19 May, Zhao Ziyang even arrived at the Tiananmen Square in tears with Li Peng to appeal to the students. But the students refused to make any response.

In the wee hours of 20 May, Yang Shangkun and Li Peng broke their promises and sent troops into Beijing. Martial law was then imposed. The perverse acts of Deng, Li, Yang, and Wang immediately provoked an unprecedented uprising by Beijing residents from all walks of life. More than 1.5 million men, women, and children volunteered to block the passage of military vehicles. Some elderly women laid themselves flat in front of tanks, and some children stood facing cannons without fear... All the soldiers sent from the country's seven major military units were startled by the people's actions. From the "education on the political situation" given by residents who gave them tea and water, the soldiers found out that the majority of people supported

the students' patriotic movement and disliked the government controlled by Deng, Li, Yang, and Wang. Persuaded by the people, many a soldier said they would rather not go into town to suppress the students.

To mobilize 300,000 soldiers from seven major military units to surround the city was the worst decision made by the Deng, Li, Yang, and Wang cliques. This decision was the result of a lack of coordination in opinions and command in the military. A civil war was looming large at this time. And over a million Beijing residents added fuel to the fire by voluntarily blocking military vehicles everywhere. Deng Xiaoping and his like were probably so scared by what was happening that they might have wet their pants. During the entire four days from the early morning of May 20 to May 23, the party Central Committee and the military were both split, leaving no one to take care of the mess and creating a power vacuum in Zhongnanhai. It was believed that Deng Xiaoping and his family fled through an underground escape passage in Zhongnanhai to seek refuge at a military station in Xishan.

A once-in-a-lifetime historical moment thus awaited China's democracy movement. If Zhao Ziyang and other liberal leaders had taken command of just one regiment, asked the students to take charge of all key departments and called on Beijing residents to have self-rule, then the party elders would have collapsed and the soldiers surrounding the city would have revolted. If this had happened, Beijing would have been like East Berlin in November, Prague in November, and Budapest in November, and the spontaneous action by the 6 million people in Beijing would have become an organized reform movement. But, Zhao Ziyang could not find any one at Tiananmen Square with whom to have a dialogue! The students at the square refused to talk to any communist leaders, avoiding them like the god of plague. Zhao Ziyang was thus forced to go to the hospital and await arrest.

The four days were thus wasted muddle-headedly. Any outstanding revolutionary would have needed only one day to succeed, but those mediocre leaders wasted four days and ended up being arrested. Only on the afternoon of 23 May did Deng Xiaoping and his supporters recover from their shock and issue an order, in the name of the Central Military Commission, to stress that only Commission Chairman Deng Xiaoping and permanent Vice Chairman Yang Shangkun had the right to mobilize the military. By carefully not mentioning the name of "First Vice Chairman Zhao Ziyang," the order in effect relieved Zhao of his power. It also demonstrated the Deng clique's fear of a military insurrection.

Undoubtedly the elders' groups were so fragile then that they could not withstand any blow, as demonstrated by Peng Zhen's cry that "this ship of ours is about to sink." An air of rebellion threatened the entire party, government, military, and populace. But there was no one to deal a deadly blow to the elders from inside the bastion. That allowed time for the Deng, Li, Yang, and Wang

cliques to prepare for the 4 June massacre, an incident that shocked the whole world.

After the massacre in Beijing, the butchers launched a nationwide campaign to arrest and execute leaders of the democracy movement. The most tragic executions were believed to have taken place inside the military, where secret tribunals sentenced to death an unspecified number of soldiers.

Two Streams of Democratic Force Within and Outside the Party

After reviewing this period of time, isn't it clear that both the movement leaders and democratic forces inside the party lost a most opportune time? The movement leaders took on a detached, evasive attitude typical of a scholar toward the gigantic machinery of a communist state, saying that they "will not be used by a faction in the party." The party liberals, on the other hand, did not dare, or were unable, to seek cooperation or support from the movement leaders. Their indecisiveness and lack of courage lost them the opportunity.

After the 4 June massacre, democratic reformists in the party and private leaders fled abroad and formed the "Federation for Democracy in China" in Paris. Perhaps up to now those in charge in Beijing have not realized or have not been willing to realize that this was a belated unity of the two streams of democratic forces within and outside the party. What have movement leaders such as Yan Jiaqi, Chen Yizi, and Wan Runnan; student leaders Wuer Kaixi and Li Lu; and workers' movement leader Yue Wu, represented? Is it not plain to the world what each of them represents?

The two democratic forces have existed since the Cultural Revolution, after which many people realized that the party, despite its 48 million members, and the military, the police, and public security was not as reliable before. Many party members saw their dreams broken and their confidence collapsed, and saw the ruling group enjoy special privileges. Many people in the party, government and military yearned for democracy and reform. Some of them were decisionmakers at high levels.

A scholar who did research on China's democratic movement pointed out in 1978 that there were two groups of forces calling for democratic reform in China. One was a private movement led by Wei Jingsheng, the other was a democratic reform movement in the party led by Hu Yaobang. These two groups cooperated briefly when they used the democracy wall and some private publications to launch a powerful attack on the regime of Hua Guofeng, Mao Zedong's successor. Old fox Deng Xiaoping publicly praised and encouraged the democracy wall organized by Wei Jingsheng and other ardent youths. Possibly because of pressure from the military, Deng Xiaoping was angered when Wei wrote in a big-character poster to "warn Deng Xiaoping against becoming a new dictator," and ordered Wei's arrest in an action that sold out the democracy wall movement. Hu Yaobang, who sympathized with Wei, could do nothing about it.

Disappointment at the Reform Forces in the Party

Wei's arrest, and his sentence to 15 years' imprisonment on groundless charges, shattered the last hope that private democratic leaders had toward the democratic reform forces in the party. They went underground and quietly worked toward achieving their goal at the risk of being secretly killed by security personnel.

At the same time, about 20 million young intellectuals who had been sent to do manual labor in the countryside demanded to return to the cities. In Yunnan Province alone, 100,000 young intellectuals quit work and marched to the provincial capital. This massive unrest ended after the Chinese Communists, anxious to prepare for a war with Vietnam, allowed all young intellectuals to return to work in the cities.

In 1981 and 1982, demonstrations organized by students erupted in many cities to protest the authorities' manipulation of an election for "people's representatives." A series of campus upheavals erupted after the authorities harassed some students at Beijing University, Fudan University in Shanghai, Jiaotong University in Xian, and Hunan Normal University in Changsha because they had nominated themselves as candidates in the election. Several thousand students at Hunan Normal University even stormed into the courtyard of the building housing the Hunan provincial party committee and staged a sit-in protest for two days and two nights, causing panic among party officials.

There was another civil resistance movement less known to the outside world. It took place from 1980 to 1986, when retired soldiers throughout the nation staged a collective petition to press their demands. The protest involved several hundred counties in the provinces of Shandong, Henan, Hubei, Hunan, Anhui, Sichuan, Guangxi, and Hainan. In every county, several thousand physically strong, highly disciplined retired soldiers left their poor villages and gathered at the city's downtown, occupying the party's buildings, slaughtering pigs to cook pork for themselves, and forcing grain warehouses to open. They did this to press their demands for jobs and better treatment. Some even hijacked trains to go to Beijing. County officials were so scared that they fled to the countryside. This spontaneous movement by retired soldiers, however, crumbled in the face of highly skillful propaganda techniques by the Chinese Communists. But more than 2,000 retired soldiers in Hainan refused to give in; they occupied party buildings for over 20 days, arming themselves with guns taken from the security forces. The Central Military Commission, regarding it as an "antirevolutionary armed revolt," sent in troops to quell the incident in a bloody suppression.

The 1985 Student Riot Hardly Reported Outside

A student riot erupted in the autumn and winter of 1985 in the major cities of Beijing, Shanghai, Tianjin, Xian, Changsha, Harbin, Hefei, and Shenyang, the riot, which

lasted several months and was barely reported by the media abroad, had an "anticorruption, anti-privileges, anti-comprador" slogan.

At that time, a huge poster was pasted on the campus of Beijing University, disclosing for the first time a list of 1,400 names of those who obtained jobs in key government and party departments because they were the dependents of senior party officials. The list, which in effect was a list of the "successors of the revolution," included the children of Deng Xiaoping, Ye Jianying, Chen Yun, Li Xiannian, Peng Zhen, Yang Shangkun, Wang Zhen, Hu Yaobang, Zhao Ziyang, Wan Li, Xi Zhongxun, Yu Qili, Bo Yibo, Huang Kecheng, Wang Renzhong, Hu Qiaomu, Liu Shaohui, Zhou Enlai, Chen Yi, Peng Dehuai, He Long, and Ro Ruiqing. The list, which covered everyone and spared no one, was quickly made known outside the campus and raised the wrath of many an intellectual and resident, who cried, "the princes are dividing our country!" According to the list, all the high positions taken by the so-called princes were concentrated in major cities along the coast and other important areas; none of them were in remote, poor places like Xinjiang, Tibet, Qinghai, and Gansu. Most of the positions were "lucrative posts" in the party, government, military, personnel, foreign trade, foreign affairs, and tourism, not in the fields of industry, agriculture, science and technology, and education. This list exposed the hereditary system of power transfer in the high circles of the Chinese Communists.

Students held protest marches from 18 September onward in the streets in Beijing, Tianjin, Shanghai, Xian, Changsha, and Wuhan. Students from Jiaotong University in Xian even publicly displayed banners calling for the "overthrow of the corrupt regime." The then premier, Zhao Ziyang, in reaction to this, argued, "There is corruption in the government, but we are not a corrupt government!" Meanwhile, the authorities dispatched 2,000 Armed Police to seal all the gates of Beijing University, forcing the students to remain on the campus. The two sides faced a deadlock for three days and three nights. The party Central Committee headed by Hu Yaobang handled the student riot with a more moderate attitude, proposing to "talk to" students. Guided by this policy, the Armed Police Headquarters ordered all policemen not to clash with the students or arrest them, but only to maintain public order. Government officials designated as negotiators were sent to the campus to undertake the thankless jobs of talking to the students in an effort to ease their complaints. A deputy mayor of Shanghai said then: "We were student activists before, but now we are reduced to dealing with the student riot every day!" This student unrest lasted until the end of 1985.

The Chinese Communists feared most any outbreak of demonstrations on 9 December—the day when China commemorated a student unrest that took place in Beijing during the civil war. Most officials spent this day worrying to death about any eruption of trouble. Early in the morning that day, high officials such as Hu Qili,

Deng Liqun, Bo Yibo, Hu Qiaomu, and Li Tieying went to various universities to take part in celebrations. Provincial officials also visited colleges in their areas. Various activities were held, including free movies, free video recording, dances, and art performances, and unprecedentedly cheap meals were offered in school canteens, such as roast pork for 20 cents and fried chicken for 30 cents. One Beijing University student commented, "This is an old Kuomintang trick! Usually the food in the canteen is good enough only for pigs, but today's special menu is like a feast, free for all! I hope everyday is 9 December."

The 1985 student unrest was put to rest by Hu Yaobang's soft touch, but the problem of corruption remained. This problem, coupled with the issues of special privileges, abuse of rights, and inflation, angered the entire nation. Deng Xiaoping and his supporters were like sitting on top a volcano, ready to be burned by the fire that existed in the hearts of the people.

The Loss of Hu Yaobang as a Buffer

The autumn of 1986 saw the eruption of a nationwide student unrest organized by renowned astrophysicist Fang Lizhi, who was then a vice president of the University of Science and Technology in Hefei, Anhui. In addition to calling for "anti-corruption, anti-privileges, democracy, and human rights," Fang Lizhi also demanded "total Westernization" of China's political reform.

At that time, Hu Yaobang's position as leader of the party was hanging precariously. Not being a fool, he knew he could use the student unrest as an excuse to speed up the party's own reform. So he steadfastly opposed cracking down on the students and insisted on negotiating with them. But the year's end saw party elders suddenly kicking Hu aside, claiming that he had "resigned." Strangely enough, the 1986 student unrest which had started vigorously died down after Hu's departure. If the students had not softened in the face of Deng Xiaoping's tough talks, if they had explicitly raised the slogan of "Hu Yaobang is innocent, reform is good," and if they had continued to organize massive nationwide demonstrations and conduct peaceful petitions, then the situation might have changed, because the majority of people, including those in the party and military, sympathized with and supported Hu Yaobang. The political significance that Hu stood for resurfaced two years after his death, triggering a massive peaceful resistance that shook the world.

By insisting on "no involvement in the dog-bite-dog struggle in the high echelon of the party," the student movement and the democratic movement have been seriously at fault. As a result of deliberate isolation from the democratic forces in the party and losing Hu Yaobang as a political cushion, the naive students led their movement into the hand of bloody dictatorship of the fascist Communists.

Student riots erupted after Hu died on 15 April 1989, but the organizers still had the scholar's mentality of not wanting to be involved in a power struggle between the reformists and the elders in the party. Before they were imprisoned by the elders, Secretary General Zhao Ziyang and his supporters had explicitly indicated their willingness to cooperate with the student movement. But the students remained unresponsive. They could shout the slogan of "down with Li Peng, down with Deng Xiaoping," but they remained muddle-headed. Tens of thousands of people occupied Tiananmen Square and held a hunger strike, but they were like a herd of lost sheep, not knowing where to go.

What was most disappointing was that the two streams of democratic forces within and outside the party still did not combine their strength when 6 million Beijing residents openly supported the students and so many people from the party, government, military, and the media were siding with the hunger strikers. They lost an opportunity to take control, and waited to be butchered by the hardliners. Only after the Tiananmen massacre did they think of unity.

The Two Democratic Forces Must Join Together

Probably as a result of not having quite recovered from a feeling of anxiety that occurred when they were fleeing China, leaders of the "Federation for Democracy in China" not only did not examine where they had gone wrong, but also hastily and irrationally predicted again and again that Deng Xiaoping, Li Peng, Wang Zhen, and Yang Shangkun would meet their political demise in one, two, or even three years. This kind of subjective desire will not replace objective political reality. They would probably have been more convincing if they had predicted five to 10 years. Because in five to 10 years Deng, Yang and Wang will be so old that they may have died or lost their ability to rule. By that time another great democratic or student movement would occur with a power that could destroy the one-party dictatorship. But before this happens, all those concerned on the mainland should gather their strength, work quietly, get rid of their stupid scholarly thinking, and penetrate the party, the military, factories, and villages. All those living abroad should rely on the support of Chinese communities and Taiwan, liaise with the democratic movement on the mainland, learn the functioning of democracy, increase their democratic qualities, and work on a constitutional draft that protects human rights.

The student leaders should determine their immediate and long-term objectives. When the right time comes, they should join forces with the party liberals without any hesitation, and destroy the elders' group with their combined power.

A warning must be made here to the party liberals: Democracy and human rights are an inevitable trend in the course of history. So, when the next unrest happens, join the ranks of democratic warriors and destroy the military dictatorship together. Otherwise, you will

always be the victims of dictators. Look what happened to Hu Yaobang and Zhao Ziyang.

The peaceful transformation that happened in socialist countries in East Europe today will be China's tomorrow. The sudden collapse of communist regimes in East Europe will serve as an encouragement to all democracy advocates inside and outside China. By uniting all possible strengths and mobilizing all possible means to work for the collapse of the Communist regime, we can save our 1.1 billion compatriots.

Sketch of Political Atmosphere at New Year

900N0388A Hong Kong CHING PAO [THE MIRROR]
in Chinese No 151, 10 Feb 90 pp 42-44

[Article by Yan Wei (1750 0251): "China During the Spring Festival"]

[Text] According to data obtained by this writer, only 6.1 percent of the students at colleges and universities in Beijing answered "fight for communism life long" when asked "How are you going to spend your life?" In response to the same question, five percent said "support socialism and struggle for realization of the four modernizations," and 40 percent said they "are patriotic and will contribute to making the nation powerful and prosperous." Surprisingly, as many as 29.2 percent said they would "make a living using their skills." This would have been unimaginable in the past.

Inspection Teams Again on the Move

In line with the usual practice in years past, government agencies at all levels on the mainland sent out all kinds of "migratory birds" during the Spring Festival, which descended on the grassroots like a mighty army. These "flocks of migratory birds" went by all kinds of names: "sanitation inspection team," "price inspection team," "inspection and acceptance team," "line education work team," and "party style and party discipline inspection team." In short, all trades and professions must be scrutinized at length as the year ends and another begins. A folk rhyme circulating among the people went like this: "Go to the grassroots riding in a car. Look outside through the glass. Listen to reports and make some statements. Run back after the banquet." This is a description of the "flocks of migratory birds," which are long on form and short on practical achievements.

Inspection teams from the higher levels were a pain in the neck for grassroots units and stores. A unit under the No. 2 Light Industrial Plant in Hangzhou told me that the inspection team must be attended to thoughtfully and cannot be neglected in any way. The impression of the bosses above, targets for the advanced... everything depended totally on what the team said and wrote. To deal with the parade of inspection teams, a unit must remove a worker from regular duties and put him in charge of receiving them. In addition, the teams kept everybody on their toes. Needless to say, the units had no choice but to spend money to entertain them—inviting

them to a decent meal, for instance, with four dishes and a soup at least. At seminars and other meetings, one must offer them cigarettes, nothing less than "Dachongju" would do, and high-quality longjing tea. Strange to say, the leaders of the units felt that the money spent entertaining them was money well spent; can you afford to offend the lords and masters above? Even when the inspection teams look turns "bombarding" you, you must still put on a smiling face and do your best to achieve "a perfect score."

LIANHE SHIBAO, a Shanghai newspaper, has questioned this practice. It asked why only the higher levels were allowed to inspect the lower levels. Why not have "reverse inspection" it wondered, with people at the bottom inspection agencies above?

This was one of the things I noticed during my trip to Suzhou and Shanghai recently.

Bringing Back Lei Feng

Huge billboards are a common sight along several of Shanghai's busy thoroughfares. Like television sets, washers, and other domestic appliances whose sales have plunged, commercial advertisements that burst upon the scene like a flood earlier have been disappearing, while picture posters of an educational nature have multiplied, notably those publicizing "birth control" and the "Lei Feng spirit." As the press trumpets an endless parade of good people and good deeds in the new social climate, another round of learning from Lei Feng is gathering momentum. When I saw team after team of Young Pioneers cleaning the streets and promoting road safety, I was reminded of the upsurge of mass fervor in the days of Lei Feng.

Witness the following. A host of Lei Feng books dating from the early 1960's have reappeared, in new editions in some cases, on the shelves of Xinhua Bookstore. Reportedly, the new edition of *Lei Feng's Diary* has become a bestseller. A sales clerk at Xinhua Bookstore told me that in the political cleanup after the Cultural Revolution, old books from that era along with countless copies of the little red book were sent back to paper mills for recycling. But what with the crackdown on uncensored publishers and the antipornography campaign, it is once again popular to put out political titles. In addition, the new regulation by the Press and Publication Administration that all publishing houses must be re-registered in the new year before they will be issued a business license has only intensified the scramble to jump on the political book bandwagon.

Not long ago a book published by Xiaotong University in Shanghai, *New Lei Feng Story*, was unexpectedly favored with a foreword by President Yang Shangkun. He said, "When we learn from Lei Feng in the new era, we should achieve a new standard."

According to press reports, Fushun specially invited a model figure who had been learning from Lei Feng for

years to a symposium and drew up a plan on learning from Lei Feng in the 1990's.

In coordination with the learn-from-Lei Feng campaign, the deeds of Lai Ning (6351 1337), the newly minted young hero, have become the model for ideological education in elementary and secondary schools. RENMIN RIBAO, GUANGMING RIBAO, and ZHONGGUO QINGNIAN BAO have all taken part in learn-from-Lei Feng discussions and propaganda.

From what I have heard, however, neither Lei Feng nor Lai Ning seems to be uppermost on the minds of the people of Shanghai. What they are most concerned about are personal interests: yearend bonuses and treasury bonds issued in 1985 and 1986 that are scheduled to mature soon.

As a leader in economic reform, Shanghai opened the nation's first stock exchange in 1987 and, aided by the policy to open up the buying and selling of stock, it witnessed a stampede to buy stock. At the time as much as 4 billion yuan worth of stock flowed into Shanghai and the interest rate was a high 10 percent and more. A large number of people in Shanghai who bought treasury bonds maturing in 1990 expect to cash in soon and reap a bonanza.

On the other hand, workers cannot be this optimistic about their bonuses. In these belt-tightening days when orders came down thick and fast to limit institutional purchasing power, the size of bonuses has been hard hit. Still the heads of units do not want to alienate workers. Hence, the scramble to buy agricultural products to be offered to workers in lieu of cash.

University Students Forced To Undergo Soul-Searching

People who read mainland newspapers carefully have certainly noticed that the media had doubled their coverage on university students, stressing the effects of so-called "soul-searching" by the students. We may well call this "reporting the positive side and instructing earnestly."

What is the spiritual state of university students in the wake of 4 June? Official publicity emphasizes these aspects:

1. Soul-searching with remorse. In the second half of last year, RENMIN RIBAO published large numbers of soul-searching articles of the ideological examination type by students from Beijing University and Beijing Normal University. The writers were invariably smitten with remorse and felt repentant for having participated in the student movement in May. They reviewed their own experience, telling of how they were duped by and victimized by the "tiny handful" of bad people. Wuer Kaixi's [0710 1422 7030 1585] former roommates took turns exposing "the man and his deeds" to differentiate themselves from him.

2. Searching for a new spiritual prop. One example is the nostalgia for Mao Zedong among university students. Acting on their own, Beijing University students have organized study groups to restudy the works of Mao Zedong. On 26 December, the overseas edition of RENMIN RIBAO carried a report titled "Searching for Marx and Studying Mao Zedong" that describes ideological changes among university students in Hubei. It said, "As they dig deeply into reality, come in contact with society, get to know the national conditions, and learn from workers and peasants, students at institutions of higher education in Hubei have undergone gratifying changes in their spiritual outlook. Now they are following a new system of 'self-management, self-education, and self-service.' Not to be outdone, Hangzhou University has compiled a work called *River Elegy Reexamined*, which has met with social approval.

3. Going to the grassroots and receiving military training so as to erase any thought of "bourgeois liberalization" with the sweat on one's brow. Beijing University freshmen have been sent off campus to receive military training. In addition, institutions of higher education everywhere are giving their students, both freshmen and nonfreshmen, a dose of effective ideological education. Thus, a new wave of enthusiasm for pre-Cultural Revolution practices like the "four cleanup movement" and working in a factory is sweeping the country. "Workers, peasants, and soldiers" have once again become sacred words.

This writer has come in contact with more than one current college graduate in Zhejiang. They said that, bombarded by a powerful propaganda offensive, students could not but have changed their thinking somewhat. But it is invisible restrictions rather than actual education that has exerted the greatest psychological pressure on them. More practical to them is whether or not they could graduate and what jobs they would be allocated. People who are deemed ideologically not up to standard worry that they may suffer for life. In job allocation, the emphasis now is on "Red as well as expert." Since nobody wants to lose out in job allocation, students have no choice but to conform to the general trend. As for students and graduate students who hope to study abroad at public expense, they are even more cautious lest they misspeak. A student from the mountain areas who has just been accepted into medical school said that the process of choosing cadres from among students had been tightened considerably, with "ideological consciousness" the main criterion. The CYL [Communist Youth League], defunct in all but name after the Cultural Revolution, is again expanding rapidly.

An Unrecurrent on Campuses

Actually, the political climate on campuses is not the picture of absolute peace and tranquillity painted by the official media. On the contrary, there is a measure of resistance expressed in many ways.

At the height of the political crackdown in June and July last year, students at Beijing University and Qinghua University showed their resistance to the government by taking "silent walks" in groups. Dozens of them gathered together on campus and took slow walks, not an assembly or a rally, but walking slowly. Their feelings were self-evident, but the school authorities could not come up with an excuse to stop them.

A professor at Hangzhou University told me that on the evening of the day when the Fifth Plenary Session of the 13th CPC Central Committee announced Deng Xiaoping's retirement, school security was particularly tight and the public security department also received orders to prevent students from making trouble. On campus, some students hit washbasins, cups, and plates loudly to vent their feelings. Some people dropped objects from high floors to make a scene. But there was nothing the school administration could do about it.

A journalist just back from a trip to Fujian to visit relatives told me that student activities remain of major concern to the man on the street because the climate on campus is a barometer of the political climate on the mainland. Romania was in turmoil last Christmas. When news came that Ceausescu had been executed, people set off firecrackers purportedly to celebrate Christmas. In the wee small hours, a group of students sang "little sister, go forward courageously." This event was much talked about approvingly. Similar tangible expressions of spiritual resistance reportedly have occurred on the campuses of Lanzhou and Xian Universities as well.

Then there are the underground activities of the democracy movement. After he fled to Canada, He Pin [0149 7340], a former reporter with SHENZHEN FAZHIBAO, who is being hunted by the government, disclosed that some universities had clandestinely set up underground organizations with ties to democracy movement figures who had escaped abroad. It is certain that although martial law has been lifted in Beijing, the authorities are not about to relax its grip on university campuses at all.

According to data obtained by this writer, the beliefs and values of university students today are a far cry from those of their counterparts before the Cultural Revolution. In a survey on the ideology of university students in the capital, only 6.1 percent of the respondents answered "fight for communism life long" when asked "How are you going to spend your life?" Five percent said they would "support socialism and strive for the realization of the four modernizations," and 40 percent said they "are patriotic and will contribute to making the nation powerful and prosperous." Surprisingly, as many as 29.2 percent said they would "make a living using their skills." That would have been unimaginable in the past.

Personal Advertisements Seeking Marriage Partners: Read Between the Lines

During my half-month trip, I had a chance to peruse semi-official tabloids in various places. An eight-page

tabloid sells for three times the price of an official newspaper. The tabloids are filled with short pieces about strange and bizarre events, rumors, and gossip, and are totally devoid of official preaching, so they are a refreshing change. I noticed that the tabloids carry many advertisements seeking marriage partners.

My mainland friends told me that the appearance of such advertisements was no innovation on the part of the tabloids. In recent years many official publications like HUN YUN YU JIA TING [MARRIAGE AND FAMILY] (how aptly named!), FU NU [WOMEN], and QINGNIAN YUE KAN [YOUNG PEOPLE MONTHLY] have long been accepting advertisements seeking marriage partners and printing them in columns with such appealing titles as "The Call of Love," "Love Bridge," and "The Quest for the Phoenix." By rendering this "special service," the tabloids have been able to increase their readership. The nation's most orthodox women's magazine, ZHONGGUO FU NU [THE WOMEN OF CHINA], put out a special issue on marriage the year before last, which included more than 100 personal advertisements at a stretch. Every copy of the publication was snapped up. The magazine did a good turn and made money at the same time, so why not?

But the various kinds of personal advertisements carry another social message: the monetary value of love.

Some examples of personal ads selected at random:

(Name), female, 28, 1.70 meters, healthy and good looking. Good family upbringing. Wants to meet unmarried man, about 30, college educated with a successful career.

(Name), male, 27, arts graduate student. Gentlemanly. Wants to meet female with regular features. Prefers children of Overseas Chinese or female willing to support further studies abroad.

(Name), female, 25, pretty and gentle. Wants to marry state organ cadre with registered residency in Guangzhou or Shenzhen. Will consider divorcee or widower.

These advertisements have less than 100 characters, but they can use some footnotes. If you read between the lines, you will see that love apparently is just some accessory. What is really valuable is "college education," "children of Overseas Chinese," "support for further studies abroad," "registered residency in Guangzhou or Shenzhen." Love on the mainland has become tainted with money. (Having said that, this writer still respects the right of the advertisers to choose freely.) ZHEJIANG GONGREN BAO, published in Hangzhou, has even printed an argument over one such personal advertisement. A Zhejiang University student came under attack for putting an ad in the paper in which he touted his university student status as an asset. A woman wrote to the paper to chide him bitterly. "One cannot eat culture or spend ideals like money. Women today all want renminbi. University students like you deserve an elderly 50-year-old woman for a wife." University students

seeking spouses through an advertisement. Perhaps this is a sign of the times. In the past they could have been punished for merely making a pass.

At a time when women "all want renminbi," it is not surprising that more than 100 female university students responded to a personal advertisement which JIEFANGJUN BAO published in a break with tradition. In the advertisement, a volunteer from the countryside looked for a wife. For a time this was all the talk in the town.

Line Education Teams Going to The Countryside

Many of the cadres in state organs that I met have already packed their bags and are ready to go to the countryside. Unwilling to lag behind in ideological education work, the Zhejiang Provincial CPC Committee has revived the old trick of "sending work groups," calling them by the fine-sounding name of "line education work teams." Actually what it wants is to demand that party members and cadres experience life at the grassroots, at the same time checking unhealthy tendencies there. The Zhejiang CPC Committee has dispatched over 200 work teams to the countryside to "eat, live, and work alongside the peasants."

When they are sent to the countryside these days, cadres seem to be less fearful of hardships than in the past. For one thing, the living standards and housing conditions in the Zhejiang countryside have indeed improved considerably. Even the incomes of peasants in the mountains of west Zhejiang, who have always been poor, have gone up considerably. Nobody should have to worry about having to eat corn paste and drink soup made with wild herbs anymore. Second, the ultraleftist stuff of the four cleanup movement long ago lost its popularity. Restrictions on the living conditions of cadres sent to the countryside have also been relaxed significantly. They are now much freer to enjoy material comforts. Consequently, many cadres consider their three-to-six-month stint in the countryside a form of spiritual relaxation, a time to take things easy as they have no hard and fast targets to meet.

Trade Union Official Dismissed Over Political Stance

90CM0006A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 242, 1 Mar 90 pp 54-55

[Article by Ho Pin (0149 7340): "Zhu Houze Dismissed for Following the Road of the Solidarity Trade Union"]

[Text] Zhu Houze [2612 0624 3419], vice chairman of Mainland China's All-China Federation of Trade Unions [ACFTU] and first secretary of its Secretariat, was relieved of his leadership duties on 25 December last year. Shortly after the 4 June massacre, there were already reports in the Hong Kong media of Zhu's arrest. Sources told this author that Zhu was forced to "convalesce" in a hospital at the end of June. In early July, ACFTU held a "meeting on the curbing of the turmoil."

Although he was present at that meeting, the communist publicity machine made no mention of this ACFTU vice chairman. Zhu was later officially placed under investigation and was relieved of his leadership duties toward the end of December.

The immediate cause of this "post-autumn settling of account" against Zhu Houze is that during the 1989 student movement some cadres from ACFTU organs took to the streets waving the ACFTU banner and joined the millions marching on Changan Avenue. The ACFTU even openly donated food and medicine worth 100,000 yuan to the students on Tiananmen Square. At an internal meeting Li Peng accused the ACFTU and the Stone Corporation of serving as logistics headquarters for the "counterrevolutionary rebellion and turmoil," and alleged that Zhu Houze was using the "turmoil" as a means of "guiding the ACFTU onto the road of Poland's Solidarity Trade Union." The more important cause is that 58-year-old Zhu Houze has more potential than any other Zhongnanhai leader and is capable of threatening the position of Li Peng and Yao Yilin, even that of Jiang Zemin and Li Ruihuan.

Widely Acclaimed for His Role in Running Guizhou

Zhu Houze, a native of Zhijin County, Guizhou Province, studied in university for some time. In 1948, as a student of Qinghua Middle School at Guiyang, the capital of Guizhou, he secretly joined the "New Democracy League" led by the Chinese Communists and became a responsible person. He also secretly circulated the journal *THEORY AND PRACTICE* which he edited. In March the following year, 18-year-old Zhu Houze became an underground Communist Party member. Within less than three months, he was appointed responsible person of the Guiyang special branch of the Chinese Communist Party.

Guizhou has long been the most backward province on the mainland. Here, one can hardly find "three feet of level ground or three consecutive days of sunshine." In this province, Zhu Houze successively served as propaganda director of the Communist Youth League's Guiyang municipal committee, director of the Chemical Engineering Bureau of Guiyang Municipality, manager of Guiyang Tobacco Company, propaganda director of Guiyang municipal party committee, director of the Secretariat of Guiyang municipal party committee, secretary of Guiyang municipal party committee, vice governor of Guizhou, and secretary of Guizhou provincial party committee. It was after 1980 that he served in the last few more important positions. In 1982, as secretary of Guiyang municipal committee, he spent six months conducting on-the-spot investigations in more than 100 industrial and mining enterprises under the municipality, and presided over the compilation of the "Outline for Economic Readjustment in Guiyang Municipality." In the first year the "Outline" was put into practice, Guiyang registered a 14 percent increase in total industrial output value and a 16 percent increase in total revenue over the previous year.

Zhu Houze had been municipal party committee secretary for only one year when he was promoted to the post of secretary of Guizhou provincial party committee. In 1983, Guizhou increased its total industrial output value by 18 percent and achieved a substantial revenue growth.

Such "miracles" drew the attention of the top communist echelon. At the end of 1983, Zhu Houze went to Beijing to take part in training and study in a short-term course given by the Central Party School. In his graduation treatise, entitled *How To Cultivate a New Generation of Successors*, he put forward the following three suggestions: First, young cadres should be cultivated to gradually take over from the aging cadres. Second, life tenure for cadres should be abolished. Third, new leading cadres must have a true grasp of economics. This paper was published in *LILUN DONGTAI* [THEORETICAL TRENDS], the journal of the Central Party School, and was highly praised by Hu Yaobang and others.

In 1984, the Chinese Communist Party's Central Committee stressed the need to speed up the development of the rural economy in "Document No. 1." That year, *RENMIN RIBAO* frontpaged the following report: During the Spring Festival, Zhu Houze led members of his staff to visit the peasants in the suburbs of Guiyang when he could have taken a rest and spent more time with his family. At that time, the peasants were afraid of policy changes. Tan Guojun [6223 0948 6874], a professional fowl breeder, frankly told Zhu Houze his worries. After hearing his views, Zhu lined up Mr. and Mrs. Tan Guojun, the mayor of Guiyang Municipality, and the district and village chiefs to have a picture taken. He said, "Let us take a picture to show our support for people taking the road to prosperity." Tan took this picture as a sign of "reassurance" and hung it high on the wall. This story was passed on among the people with approval.

Demoted for Insisting on a "Harmonious and Relaxed" Atmosphere

In 1985, Zhu Houze took over the Central Propaganda Department from Deng Liqun, the "king of leftists." Since assuming office, he repeatedly urged the public to "oppose the left," and insisted on creating a "harmonious and relaxed" atmosphere. He seemed to be less fond of dogmas than was Hu Yaobang.

In an article, he asked, "Can we not be a little more tolerant toward ideas and views that are not quite the same as what we used to think? Can we not be a little more generous toward comrades with dissenting views?" In another article, entitled "Cultural Atmosphere and Cultural Openness," he noted, "In overall terms, we also need a more stable, well-adjusted, and harmonious atmosphere. This will encourage the development of literature and art and promote theoretical and academic explorations..." Zhu also called for reform of the political structure at a number of internal meetings. He warned that unless this was done, economic structural reform would come to a halt and even end in chaos.

Zhu Houze's words and deeds were very much in line with Hu Yaobang's idea of "emancipation of the mind." In fact, between 1985 and 1986 he was Hu's right hand man. During this period, a large number of articles discussing the reform of the political structure were published, and springtime with "a hundred flowers blooming" descended on the literary and art circles. However, a huge and ominous whirlpool was just round the corner.

Hu Yaobang's "tolerance" toward the "student movement" gave the old men's party an excuse with which to attack him. In January 1987, Hu was accused of "violating the principle of collective leadership" and "making serious mistakes in political principle" and was forced to resign from his post as secretary general of the CPC Central Committee. Immediately after this, Zhu Houze's post as director of the Central Committee's Propaganda Department was also taken over by Wang Renzhi [3769 1804 0037], known as the "admiral of the left." Zhu was demoted to the post of deputy director of the Rural Development Research Center of China (vice ministerial grade).

Since the Central Propaganda Department is the "pen" of the Chinese Communist Party and is as crucial as the "gun," it naturally becomes the focus of intraparty power struggles. After serving as propaganda director for one year, Zhu Houze should count himself fortunate that he was still able to stay at the "vice ministerial grade" after being ousted.

Investigated for Association With Intellectuals

In 1987, when the "movement against bourgeois liberalization" first started, Zhu Houze requested to be allowed to retire but his wishes were denied. Henceforth, he engaged seriously in rural research and his papers and reports of investigation were soon published in theoretical journals.

Zhu Houze called himself "half an intellectual" and always kept in close touch with the intelligentsia. In their recent investigation, the Zhongnanhai dignitaries concentrated on checking his relations with some of the leading "liberal intellectuals." The reason for this is that Zhu Houze and Xiang Nan [7309 0589] (one of Hu Yaobang's able assistants and former secretary of Fujian provincial party committee) regularly attended nongovernmental academic seminars organized by intellectuals. Discussions of this kind were frequently held in Beijing. Active organizers and participants of these discussions, such as Yan Jiaqi, Ge Yang [2047 2254], Yu Haocheng [0060 3185 2052], Chen Ziming [7115 1311 2494], Xu Liangying [6079 5328 5391], Zhang Zonghou [1728 1350 0624], Dai Qing [2071 2532], Wen Yuankai [3306 0337 0481], Wang Juntao [3769 6511 3447] and Bao Zunxin [0545 6690 0207], were either arrested or made to flee the country. Those put under house arrest should perhaps count themselves lucky.

Zhu Houze lives near the Guesthouse of the Central Organization Department at Wukesong in Beijing. Intellectuals regularly called on him and there was no barrier between him and his guests. They sometimes engaged in heated argument on issues.

Accused of Supporting Independence for Trade Unions

In the fall of 1988, Hu Yaobang's influence saw a slight rise and Zhao Ziyang felt the need to create an opportunity for Zhu Houze to stage a comeback. At the 11th Congress of Chinese Trade Unions, Zhu was elected vice chairman of ACFTU and first secretary of its Secretariat.

On the China mainland, trade unions are appendages organized by the Communist Party. They have no independence and cannot begin to talk about representing and defending workers' interests. After taking office, Zhu Houze proposed that Chinese trade unions draw lessons from the experience of Poland's trade unions and take the road of independence. He believed that trade unions should truly fight for and defend all legitimate rights of trade union members and become an important force that checks and balances the power of the government and enterprises.

Although Zhu Houze was in charge of ACFTU for less than six months, one can see signs of reform in the trade unions. Many articles on trade union reform were published in newspapers and magazines and a range of seminars were being organized. In Shenyang in the northwest, a local trade union made the news for changing its name to "Solidarity." Some trade unions proposed doing away with government regulations and funding in order to have greater bargaining power when fighting for their own rights and benefits. In the Shenzhen Special Economic Zone in the south, trade unions even involved themselves directly in labor disputes. All these have now been turned into "crimes" committed by Zhu Houze. The Zhongnanhai authorities emphasized that "trade unions must take the socialist road" and "unswervingly obey the party's orders."

In the current delicate situation, however, it is unlikely that Zhu Houze will face arrest. It is generally believed that if Zhu Houze could make yet another comeback, he is likely to be able to play an exceedingly important role.

Party-State Separation at Grassroots 'Not Necessary'

90CM0078A Beijing *NONGMIN RIBAO* in Chinese
7 Mar 90 p 3

[Article by Duan Zhiqiang (3008 1807 1730): "Question Separation of Party and Government at Rural Grassroots"]

[Text] The writer believes the following: At the present stage, a separation of party and government at the grassroots level in rural areas is neither necessary nor feasible.

I

The separation of the party and government was a hot theoretical topic for a time, but a difficult practical one.

The main reason given for the need for a separation between party and government is that the party monopolizes numerous matters that it ought not to and is unable to take care of, with the result that it becomes a de facto administrative organization and production organization that is unable to concentrate its energies on its own ideological and organizational building. The fact is that the crux of the "the-party-does-not-mind-the-party's-business" charge lies in the party, from top to bottom, not having devoted sufficient attention to party building during the past several years, with the result that it was outclassed when faced with hard economic targets. In addition was the problem of how to improve party leadership under the new circumstances in the absence of a system, thorough study, and lack of regulations and methods. Just think, when the "macroclimate" does not change, when forms and methods do not change, even if the party did not monopolize "every matter," but devoted full time, would it be able to do a good job of minding the party's business?

This is not to mention that even were the party and the government separated, that would not mean a separation of party leaders and state power. When the party and the government independently exercise authority in their own "bailiwicks," the party's organizational leadership role is "separated out."

Party leadership is primarily political leadership, ideological leadership, and organizational leadership. Political leadership means the direction to be taken; ideological leadership is the premise; and organizational leadership is the support. The three are organically linked and completely inseparable. Applied to rural grassroots CPC Committees and branch committees, in a certain sense, organizational leadership appears most important. This is because without leadership support, there is no way to begin talking about other kinds of leadership. The party's policy "obstructions" and "cleavages" will become more pronounced; the grassroots party organization's role as a political nucleus and fighting force will become poorer; and the party's leadership of the Communist Youth League, the Women's Federation, and such mass organizations in rural villages will come to nothing.

The main task of township (and town) CPC Committees (including village party branches and village committees) is to implement party plans and policies and to fulfill state quotas. In this it differs from the role of high-level party organs, which emphasize political leadership, and which point the direction for the solution of major problems in all fields of social life, proposing and drawing up lines, plans, and policies.

At the rural grassroots level, developing the economy, improving daily life, and looking after the personal interests of the broad masses of peasants are the main

duties of rural cadres. There is no way to separate, and it is impossible to separate, whether these problems belong under jurisdiction of the CPC committee or the government. Unless the building of the party is linked to the building of the economy, real results will be truly difficult to achieve. Moreover, the building of the economy is itself the emphasis of the party's work.

Clearly, the separation of party and government at the rural grassroots level is not necessary.

II

Township (and town) cadres have long lacked form; younger cadres coming up are insufficient in number to replace older cadres leaving; there is a cleavage between, and the old and the young work in the same jobs. In each township (or town), except for the secretary, the township (or town) head, the head of the discipline inspection section, the head of the People's Armed Police, and the chairman of the people's representative assembly—six or seven people in all—there are just a few people truly able to handle matters. A township (or town) cadre table of organization usually consists of approximately 18 to 25 people. When key tasks and distressing or thorny "hard tasks" must be completed, everyone has to turn out, but making a crash effort all year long is very difficult. If the party and the government are separated on top of this, their duties divided up, not only will some people be busy while others are idle, and an unequal sharing of weal and woe exist, but there will be even less manpower and no way to fulfill tasks. Therefore, it will still be necessary for the "CPC Committee to make sure to take direct charge, the secretary to take personal charge of doing the work, and the whole group to pitch in to work together." "They will have to do everything together, and then separate party from government functions afterward."

At the top level in villages, most mass organizations are hollow shells, and many economic organizations exist in name only. The village CPC Committee self-government organizations actually perform the functions and duties of both the former production brigades and small production teams. Cadres are jointly nominated and assigned by the CPC Committee and the village party branch, some of which go through an election formality. Although the village supposedly has a peace preservation committee, a mediation committee, a patriotic health campaign committee, a planned parenthood association, and a weddings and funerals council, all these positions are filled concurrently by the principal cadres. Actually, multiple positions are combined in a single person for a high degree of centralization. When one goes to a village, three or four people are in charge: a branch secretary, a director, a copy clerk, and a bookkeeper. The "village standing committee" decides important matters. What the village branch secretary says goes, and what he doesn't say also goes. When the party branch is good, the village's work is good; and when the party branch is strong, teams in charge are staunch, and vice versa.

Village party branches taking the lead, and village committees forming the foundation, blending economic organizations and mass organizations into a single body is the network or operating mechanism that rural grassroots organizations in the country have used to this day. Thus, the building of village organizations must be tackled in a comprehensive way, taking the building of the party branch as the key point, addressing in a coordinated way the building of the party, the building of the village committee, the building of mass organizations, the building of service mechanisms, and the building of mechanisms to be on guard and provide guidance—five positions forming a single entity. This will enable political power organizations, administrative organizations, self-government organizations, and service organizations to develop in a coordinated way. Only in this way can the party have a firm organizational base and a mass base throughout the countryside. Otherwise, if organizations are separated, each doing a part independently and separately, there can only be half the results for twice the effort, or minimal accomplishments.

To summarize the foregoing, the separation of party and government in townships and villages is impossible at the present stage.

III

Township (or town) CPC Committees and governments are the party's local grassroots CPC Committees and the government's grassroots organizations. They form a bridge and a bond that link the state and the peasants, political authority and self-government, administration and the economy, the economy owned by the whole people and the collective economy, administration and management, and government and the masses. In view of the duties they perform, the functions for which they are responsible, and the methods they employ, there should be a separation of party and government, separate political and economic organizations, and a separation of administration and management. However, the situation today is one of no separation among party, political, and economic organizations, and their relationship to each other has not been straightened out. First, after communes and brigades changed to townships and villages, only the former situation in which communes substituted for government was changed to government substituting for communes. Likewise, there is no distinction between government and communes. Second, there are many instances in which the party substitutes for government, and government substitutes for the party. Although not entirely avoidable, no reasonable rules and regulations exist to regulate matters. In a certain sense, this weakens the party's work, hurts the government's work, and economic work falls between the cracks.

At the top level in villages, since the "Villagers Committee Organization Code" does not spell out the relationship between the village organization and the party branch, it is very easy for contradictions to arise between the two. For example, a village chairman in Changle County, Shandong Province, told the village party branch secretary, "As

chairman, I was elected by the villagers of the entire village, so I am in charge of all matters throughout the village. As secretary, you were elected by a few party members, so you look after those several party members." Thus, the village party branch secretary and the village chairman may have equal power, and when both are capable, they do not form a nucleus nor work together closely. There are "constant fights within the fortress."

Therefore, it is necessary to proceed from realities, and to proceed from the party's objectives, mission, and goals, not follow forms or put on a show, but rather study the specific functions of the party and the government at different levels and in different fields, place emphasis on changing work style and doing real deeds for the people, gradually doing more to bolster ideological and political work, to build spiritual civilization, and to improve party leadership steadily.

Power Versus Economics in Quest for Equality

90ON0400A Hong Kong CHAO LIU [TIDE] in Chinese
No 36, 15 Feb 90 pp 19-21

[Article by Wu Guoguang (0702 0948 0342), former commentator for the Theoretical Department of RENMIN RIBAO: "The Road to Fairness Lies in Dividing the Chips Based on Economics, Not on Power"]

[Text] The question of fairness is a subjective experience that arouses particularly strong emotions. We must try to find a common ground and enquire into what is of the greatest common interest to our people today. The answer lies in development of the productive forces.

In the past, profit distributions were based on power distribution. There existed an inverse ratio between one's distance from the center of power and the profits one enjoyed. There was no fairness to speak of. This was a kind of "ethereal" fairness.

Mainland China's salvation lies in doing away with the "fairness" that allows chips to be divided based on power, and adopting fairness that divides the chips based on economics. "Commodities are the inherent equalizers." Today, "sellers of tea-soaked eggs earn more than those building missiles." This is because the missile builders still depend on the "god" of fixed prices worshipped by their patrons of total power, whereas the egg sellers have cast their labor out into the marketplace. Only when there is a widespread movement toward the marketplace will it be possible for us to achieve some semblance of fairness.

The way I see it, to put it simply, the so-called fairness problem is a problem with the mechanisms whereby our society counts and divides the profit chips. This sort of counting and dividing of interests may need to conform with two conditions. The first is that it must help to increase the overall interests of society and it must help to develop the productive forces and increase societal and human development. The other is that it must be acknowledged and accepted by the majority of the people, and it must be able

to satisfy the first condition. There must be an objective yardstick with which to measure fairness. However, the question of fairness is a subjective experience that arouses particularly strong emotions. Thus, there remains yet another condition to fulfill—we must find a common subjective understanding. The question of fairness rests upon a certain foundation of common understanding. When "pa is talking about fairness for himself, and ma is talking about fairness for herself" then we do not have fairness. A common understanding must be formed from a foundation of common interests. The way I see it, when looking at the question of fairness as it pertains to Mainland China today, we need look only as far as the greatest common need of the people under the present circumstances. Today, with the problem of interest group breakups becoming more and more critical, we must find an objective yardstick or we can not even address the problem. It appears that the greatest common interest lies in development of the productive forces.

Traditionally, in China we have counted and divided society's profits from the standpoint of political power. Or, in other words, in the past we counted the profit chips in accordance with who had the power chips, and we divided profits to the persons who had garnered power. With power came profits. Without power, no profits were to be had. The amount of power one had determined the amount of profits one received. The farther away one receded from the centers of power, the fewer profits one came away with. An inverse ratio between distance and profits was at work. The farther away, the fewer profits one got. The closer one was to power, the more profits one got. Remember, "the prime minister's family also enjoys upper class privileges!" With this standard at work, there was no fairness to speak of. Because there was no direct relationship between power and the labor that created goods and wealth, people could not get more power by working harder. Thus, things became less clear with respect to two issues: first, how does one get power? Because fairness in this context was not founded on achievement through the basic human value of labor, many things were produced that ran counter to human development. The other issue was that power aided only in increasing individual wealth, it did not help increase overall wealth.

With this sort of mechanism at work, it was easy to create something that looked like fairness. This something was egalitarianism. This is relative equality that was achieved by transferring a small slice of special privilege. Aside from those who had power, all others shared in profits on an equal basis. And what were these profits they shared in? They were profits distributed outward from the power centers. This is what led to "ethereal" fairness. Whether something was fair was to be decided by the "ethereal" standard put forth by those in total power. Everyone has different needs and different abilities, but the "god" of total power gave everyone the same things in the same amounts. This is what happens when power is allowed to count the profits.

We have always reacted strongly against this sort of unfair distribution of profits. How do we change the situation? What has always happened is that those with no power have

fought to gain power, the ruled have fought to become the rulers, the farmer has tried to become emperor, and the daughter-in-law has tried to become grandmother. The problem is, we can have only one emperor. That is to say, power is always limited. We cannot have everyone wielding administrative power in society. The result has been that we go round and round trying to close a strange circle. If we do not do away with the mechanism that counts the chips based on who has power, then it does not matter if we strive for fairness through egalitarianism or through putting new people in power under the old mechanism. We will just end up re-creating the old unfairness. You had power before, now I have power, the oppression will go on forever, as will the injustice.

Our salvation lies in creating a new mechanism. Mainland China should now start dividing up the profit chips based on economic rules. Money is the lifeblood of the market. We should try to find our fairness in the marketplace. Marx said: "Commodities are the inherent equalizer." Everyone is equal when they are working or producing commodities. How do we distribute the profits? Based on labor. Labor is a nice currency to use and now it is, in fact, used as a currency. What kind of labor? That labor which helps to increase commodity production and the material wealth of society. Of course, the road to laying one's hands on currency can be a winding one. Under present conditions, much currency is dependent on the power one has to get it. It is, in effect, a creature of power. It is for this reason that the people are so incensed about state-run stores. They are making staggering profits because they have access to power. This shows that we still have not really done away with chip counting based on power. If we want to do away with this kind of power mechanism, then we must adopt a market economy. Market establishment will lead to regularity in the economics-based model of profit counting and distribution. And fairness will come out of this.

The fairness achieved by using money in the marketplace can solve a thorny problem concerning "injustice." By the process of natural selection in the marketplace, we will see an end to the blind favor-seeking that currently goes on among the various interest groups in society. Currently, many people are dissatisfied with individual proprietorships. They feel that it is not fair for them to work their hands to the bone for 100 yuan per month, and then look around and see individual proprietorships making money hand over fist. I feel that the comparison itself is unjustified. Earnings of 100 yuan are indeed too small, but I feel that the individual proprietorship should earn exactly what it is earning. Granted, a certain portion of the earnings of the individual proprietor is due to the imperfect formation of the market mechanism. If the market were perfectly formed, and he sold his commodities at a profit and earned 3,000 yuan in a month, well, I think that is the way it should be. The individual proprietor makes his money based on the price of labor in the market, but the intellectual makes his money based on the price of labor in the government-regulated commodity economy. People say "it is better to sell tea-soaked eggs than to build missiles, and it is better to work with a razor than with a scalpel." The basic issue

involved here is that the former puts his labor out in the marketplace, whereas the latter is still working for the fixed-price "god" of those with total power. Without the former, things seem to be fair. But when we have the former, when we have a currency-based system of profits operating in the marketplace to compare things to, then it becomes clear that counting profits based on power is unfair. "Compared to pearls and jade, what I have seems dirty." However, people often feel that "what he has is dirty," not what they have is dirty. People think that unfairness has been created by the egg sellers. The truth is that the egg sellers have nothing to do with it. Our salvation does not lie in pulling the egg sellers back into the mechanism whereby profits are counted based on power. Rather, what we need to do is put the surgeons and their scalpels out into the marketplace where their skills will be rewarded based on market mechanisms. Once we do this, whatever one earns will be fair. Why is this so? Because once we open things up everyone will be free to find his own position. If you build atomic missiles and do not earn much money, then go sell tea-soaked eggs! People have different needs. If you allow me to sell tea-soaked eggs and earn 300 yuan per month, I will not do it because I would rather earn 150 yuan per month as an artist. Throughout the world there are scientists and professors who earn less than miners. But, they have made their own choices to do what they do. Every man makes his own choice about his own standard for fairness.

It is a hugely significant change to go from divine "justice" to individual self-sufficiency. I think this is called "godless" fairness. Power creates gods, and the market destroys them. Only when the commodity economy goes a significant ways towards freeing up human development in a product economy can we talk about fairness. "Justice lies in the minds of the people." I feel that this can take be explained in the following way: what will be acceptable to the majority of the people? People find things acceptable based on their own standards of acceptance. The market has this wonderful force: Increases in individual wealth, social wealth, and the wealth of others go hand in hand.

The power profit view is that I have and you have not. It is based on the principle of deprivation. The commodity-currency-market view is that I have only if you have. If I have then you have. It is based on the principle of exchange. The former is never fair; only with the latter is there a chance of moving toward fairness.

Publications Adhere to Party Line

90CM0005A Hong Kong CHIU SHIH NIENTAI [THE NINETIES] in Chinese No 242, 1 Mar 90 pp 56-57

[Article by Wang Hai-yu (3076 1585 4368): "Beijing Files"]

[Text] Endless Rounds of Spring Festival Tea Parties in the Capital

—Around the Spring Festival, tea parties and gatherings were held one after another at Zhongnanhai and the Great Hall of the People in Beijing. Between 19 and 25

January, tea parties at the central level included: 1) Spring Festival celebrations of the party Central Committee and State Council; 2) tea party for aging comrades of the Central Advisory Commission and Central Organization Department residing in Beijing; 3) United Front Department reception; 4) get-together of returned Overseas Chinese and their dependents; 5) reception given by the Chinese People's Political Consultative Conference for diplomatic envoys in Beijing; 6) get-together of returned overseas students; 7) get-together of army men and civilians in Beijing; 8) tea party thrown by the Diplomatic Studies Society; 9) Spring Festival get-together of people of different national minorities; 10) Spring Festival banquet given by the United Front Department for Taiwan compatriots... According to reports, these activities were "fun-filled" and "full of joy." Jiang Zemin, Li Peng, Yao Yilin, Li Ruihuan, and others attended these functions.

—Beginning in mid-January, leading papers like RENMIN RIBAO and BEIJING RIBAO all worked on creating an atmosphere for the Spring Festival. Wide publicity was given to the Central Committee's "six-character principle" of harmony, gaiety, and decorum. Li Ruihuan, as head of the "Leading Group for Spring Festival Work," personally went to the grassroots units to inspect work.

—According to a XINHUA dispatch datelined Washington 25 January, a Spring Festival get-together was held in Communist China's Embassy in the United States. The get-together, said the report, was "filled with fun and laughter" and "the patriotic songs and ballads sung drew strong response from the overseas students."

Literary and Art Circles Busy Making Gestures

—Hong Kong papers were again mentioned by name. WENYI LILUN YU PIPING [THEORY AND CRITICISM OF LITERATURE AND ARTS] carried an article by Yi Ren [1707 0086] entitled "The Ins and Outs of the Zhuozhou Conference" in issue No. 1, 1990. The article accused Hong Kong's HSIN PAO, CHING PAO [THE MIRROR], and CHIU SHIH NIENTAI [THE NINETIES] of "spreading rumors" against the Zhuozhou Conference. This article was carried in RENMIN RIBAO OVERSEAS EDITION on 16 February.

—According to XIN WENHUA BAO [NEW CULTURAL NEWS] published in Hunan, the authoritative literary journal RENMIN WENXUE [PEOPLE'S LITERATURE] was caught in a lawsuit for publishing the novel *Official Circles* in issue No. 4 last year. It was a story about the wrongs done by Xiong Qingquan [3574 3237 3123], secretary of the party committee of a certain province. The protagonist's name and position happen to be the same as those of the incumbent provincial party committee secretary Xiong Qingquan

[3574 3237 3123]. The General Office of the provincial government wrote to the editorial department of RENMIN WENXUE for clarification. The reply given by the editorial department was that the author had never been to Hunan, that the characters were "purely fictional" and that the whole matter was a coincidence. In the end, the journal printed a "Note to Readers" to clear matters up.

—ZHONGLIU [MIDSTREAM], a comprehensive literary and art journal which claimed to have "opposition to the trend of bourgeois liberalization" as its aim and professed that it "will never wallow in the same mire (as people advocating liberalization)," published its inaugural issue in Beijing in January. It said in its inaugural message that "we will not hide the fact that we uphold the four cardinal principles..."

—According to the February issue of WENHUI DUSHU ZHOUBAO [WENHUI READING WEEKLY], the world's first English edition of the *Collected Works of Mao Zedong* is being prepared for publication by the Harvard University's John Fairbanks Center. The copious collection will have 50 to 60 volumes.

—BAOKAN WENZHAI [NEWSPAPER AND MAGAZINE DIGEST] carried a statistical item saying that under the influence of the austerity program and the antiporn campaign in the literary, art, and publishing circles, some 500 publishing houses, newspapers, and magazines were forced to close down or merge.

—The "Shekou incident," which had long quieted down, was brought up again. The communist theoretical journal QIUSHI [SEEKING TRUTH] carried an article repudiating the agitators of the "incident" in issue No. 1, 1990. The article said: "Some people availed themselves of the 'incident' to totally negate political and ideological work. Their aim was to negate the party's leadership."

—MAKEXI ZHUYI TANSUO [PROBES INTO MARXISM] and MAKEXI ZHUYI ZAI DANGDAI [MARXISM IN CONTEMPORARY TIMES], two journals devoted to studies on orthodox Marxist-Leninist theories, ceased publication as of 1990. No official explanations were given.

—GUANGMING RIBAO reported on 12 January that over 3,000 people had used the suicide prevention hotline 552236 since it was first opened in Beijing in the second half of last year, and more than 40 people who tried to take their own lives were saved in time. Beijing residents called this hotline the "hotline of hope."

Another news digest also carried an item on this hotline. However, it gave a slightly different version, disclosing that in Beijing alone, there are more than 30 psychiatric counseling centers offering free services to "the despairing and discontented."

Does Lei Feng Belong to Our World?

—ZHONGGUO QINGNIAN BAO reported on 14 January that a delegation from the [Communist Youth] League Central Committee held a get-together with the unit where Lei Feng served in his day. The delegation visited the veteran fighters and experienced again the spirit of Lei Feng. Lei Feng's unit put forward the following new slogan: "Take Lei Feng's spirit as the league's spirit; take Lei Feng's deeds as the league's course; take the Lei Feng model as the league's treasure; and take 'Learning From Lei Feng' as the league song."

—During the last couple of months, scarcely a day passed without Lei Feng's name being mentioned in newspapers in Beijing. Lei Feng-style people and deeds emerged from all walks of life. Lei Feng's comrades-in-arms, Lei Feng's hometown, and Lei Feng's former unit all became hot topics in newspaper reports.

—Under the banner headline of "Lei Feng Belongs to Our World," RENMIN RIBAO OVERSEAS EDITION carried on 3 February stories of how international friends cherished Lei Feng. The spirit of Lei Feng was said to have touched the hearts of people the world over: A Japanese man said he would definitely try to emulate Lei Feng when he returned to Japan. "Greatly touched," a French student said, "How wonderful it would be if all mankind would be like Lei Feng!" A Lei Feng study society was set up in Britain, and pamphlets on Lei Feng were printed and distributed by the Thai Government.

—The Central Discipline Inspection Commission circulated an official document entitled "Provisional Regulations on the Handling of Party Members Who Violate Moral and Party Disciplines." Punishment was meted out to party members who violated law and discipline for the nth time. "Immoral" deeds covered in this document include seeking honor through fraud and deception, lavish marriage ceremonies and funeral services, maltreatment of one's family, insult and libel, frame-ups, flinching in the face of danger, adultery committed by army men's dependents. Punishment includes probation within the party, expulsion from the party, and dismissal from all party posts, but does not include criminal action.

—On 8 February, Beijing newspapers all frontpaged the "Guidelines Proposed by the Central Committee of the CPC for Upholding and Improving the System of Multiparty Cooperation and Political Consultation Under the Leadership of the CPC," which was finalized by the CPC Central Committee at the end of last year. LIAOWANG Nos. 5 and 6, 1990, disclosed how this document was prepared: The document was completed by May last year, and the views of democratic parties were consulted at the beginning of December.

Beginning 9 February. RENMIN RIBAO, GUANGMING RIBAO, and ZHONGGUO QINGNIAN BAO serialized the support expressed by leaders of various quarters and strata. This represented the third round of the statement of position since last May.

- XIANDAI REN BAO [THE MODERN MAN] questioned the interest rate on Lei Feng's fixed deposit of 100 yuan 30 years ago. The article disclosed that the interest rate was a mere 3.9 percent when Lei Feng made the deposit, and said the account suffered a great loss because no adjustment had been made these past 28 years. It suggested that the money be placed in an eight-year fixed-term deposit account, with principal and interest to be carried over, and that the sum be used to set up a "Lei Feng Fund" for the encouragement of Lei Feng-style people.

Indigenous Policies and "Countermeasures"

- SIXIANG ZHENGZHI GONGZUO YANJIU [RESEARCH IN IDEOLOGICAL-POLITICAL WORK] published in Beijing carried an article warning against the indiscriminate formulation of indigenous policies which may extend the scope of "liberalization" in the drive to oppose bourgeois liberalization. The article cited how some grassroots leaders became increasingly leftist in their opposition. In addition to problems of political line and political principles, they also exposed and criticized mistakes in management, discipline, work style, and ways of life, treating these as categories of "liberalization." This "lowered the political nature of the struggle."
- JINGJI RIBAO disclosed that the film *Death Is Imminent*, a thriller rated unsuitable for children under 16, was shown to full houses at Beijing's only children's cinema. According to the manager of the cinema, he had no alternative but show adult movies because, for one thing, no children's films were available. He said he also had to take economic returns into account. The Beijing Motion Picture Distribution Company also did not make any classifications when allocating films.
- JINGJI CANKAO disclosed that despite repeated prohibitions announced by the State Education Commission, primary and middle schools in Zhejiang Province still continued the practice of taking in students at "negotiated fees." The fees paid by these students ranged from a couple of hundred yuan to several thousand yuan. Students were taught "based on their ability to pay."
- As disclosed in GONGREN RIBAO immediately after the Spring Festival, many localities were hit by the "Mahjong fever." According to a survey conducted by the paper in Shanghai, incomplete statistics showed that 30 of every 100 workers spent their spare time playing mahjong. In a primary school with 755 students, 90 percent of the parents loved playing mahjong, and half the students confessed having been called upon to complete the foursome.

—According to news from Beijing, the Government Offices Administration Bureau recently issued a document that set out "countermeasures" against the practice of fighting the guideline on "four dishes and one soup" by serving huge portions. The document fixed the amounts for each working meal and stipulated that any sum in excess of the prescribed amount must be paid out of one's own pocket. Restrictions were also set on the number of guests invited to help entertain the guest of honor and on the place of entertaining.

—According to a sample survey conducted by Beijing's ZHONGGUO TONGJI XINXI BAO [CHINA STATISTICAL INFORMATION NEWS] in the rural areas of the whole country, household consumption had moved up the ladder from the "old four items" (bicycles, sewing machines, watches, and radios) to the "new four items," namely, television sets, washing machines, player/recorders, and electric fans.

—At a national seminar on population held in Beijing not long ago, the following estimate was made on the country's demographic situation: Over the next 10 years, 13 million women will be entering the child-bearing age each year. In 1995, women of child-bearing age will total 330 million.

—According to a XINHUA dispatch datelined Taiyuan 31 January, universities in Shanxi achieved marked success in grasping ideological work among students. After learning the documents, watching the videotapes and going down to the grassroots level for tempering, students of institutions of higher learning developed the habit of reflection and obtained a clear understanding of the situation. More than 6,220 students applied for party membership. However, it did not say how many students had written statements of repentance and self-criticism.

—RENMIN RIBAO OVERSEAS EDITION carried a short commentary on 26 January refuting allegations about Chinese leaders and their children owning foreign bank deposits. The author said: "My suggestion is: If reports on foreign bank deposits are verified, the informant should at least be awarded half the amount of the deposits in question." He did not, however, elaborate on how one should go about claiming this money.

NPC Deputy Challenges Treatment of Hu Jiwei

HK3103031090 Hong Kong SOUTH CHINA MORNING POST in English 31 Mar 90 p 9

[By Chris Yeung in Beijing]

[Text] A local deputy of the Chinese National People's Congress (NPC), Miss Liu Yiu-chu, yesterday challenged the decision of its Standing Committee to sack a member, Mr Hu Jiwei, for allegedly taking part in the "counter-revolutionary rebellion".

She hinted that it was lawful for Mr Hu, a former chief editor of the PEOPLE'S DAILY [RENMIN RIBAO], to call an emergency meeting last May to re-examine the necessity of imposing martial law in Beijing.

Miss Liu maintained the Standing Committee report failed to clarify the sacking of Mr Hu.

The report, which was tabled to the full NPC session of March 22 pointed out that Mr Hu was sacked because he had taken part in the rebellion and infringed the rights of other members.

Miss Liu said in a group discussion among Hong Kong and Macao delegates yesterday: "Some NPC deputies have, in accordance with the Chinese Constitution and the laws, exercised their right to call for an emergency NPC meeting, and if necessary, to dismiss some officials. Is this really unlawful?"

"Is it a participation in the rebellion? Is it 'an attempt to force' the NPC Standing Committee to commit an unlawful act? Is it 'an attempt to put pressure' on the NPC Standing Committee?" she asked.

Miss Liu added: "I firmly believe that even the Constitution can be amended. As long as political, economic and social stability is not affected, calls to amend the Constitution should not be construed as 'rebellion' or 'subversion'."

Miss Liu said: "I have sincere hope for the Communist Party. For the sake of stability, please try to avoid letting political struggle with the party influence the country as a whole...internal problems should be solved in a calm and mild way."

She said she supported the statement in the Government Work Report that calls for the strengthening of education in socialist democracy and the legal system.

The understanding of social democracy and legal system is a prerequisite for the implementation of the provision on subversion in the Basic Law Draft, Miss Liu said.

At the same time, she said, the understanding of the democratic and legal system under a capitalist society was also indispensable if the policy of "one country, two systems" was to become a success.

Her colleague, Mr Cheng Yiu-tong, chairman of the left-wing Federation of Trade Unions, agreed that the brief statement on Mr Hu in the Standing Committee report had failed to convince the deputies that he should be sacked.

"As the highest organ of power in China, it (the NPC standing body) should give an account of what the Government has done," he said.

Mr Cheng maintained the supervisory power of the NPC should be strengthened to demonstrate that the NPC was not merely a voting machine.

He was also critical of the degree of openness of the on-going session, which he said was "retrogressive".

The vocal unionist also said the Standing Committee itself had failed to follow the standing orders of the NPC by providing documents to the delegates one month before the opening of the plenum.

"We had only been informed of the schedule 10 days before it began," he said.

Another delegate, Mr Lee Lin-sang, criticised the attitude of NPC vice-chairman, Mr Peng Chong, when delivering the Standing Committee report.

"He should take better care to avoid verbal mistakes. He could not even put some key figures correctly. As a parliamentarian, can't he be more serious?"

Party Supervision of Cadres Affirmed

900N0406A Nanjing QUNZHONG [THE MASSES]
in Chinese No 1, 5 Jan 90 pp 22-23

[Article by Wang Jieping (3769 3381 1627) and Chen Jinling (7115 6855 7117): "Uphold the Principle of Party Supervision of Cadres"]

[Text] Party supervision of cadres has been a consistent policy of our Party as well as a basic principle of our cadre system.

In 1962, Comrade Deng Xiaoping unequivocally stated that: "The Party must supervise the Party; supervising Party members first and supervising cadres second." Twenty seven years later, the CPC Central Committee, while experiencing the lessons involved in thoroughly curbing the turmoil and putting down the counterrevolutionary rebellion, also solemnly stresses that Party supervision of cadres is one of the basic functions of a ruling Party, and if this function were to be forfeited, then the most elementary qualification for a ruling Party would be lost. The principle of Party supervision of cadres must be vigorously reaffirmed and upheld, and we must resolutely guard against weakness in cadre work and correct the trend whereby the leadership of the Party is out of touch.

So-called Party supervision of cadres mainly includes the following. First, overall authority for guiding cadre work is wielded by the Party. In all cadre work, the Party is in a leading position. Our cadre line, guiding principles, policies and standards can only be formulated in a unified manner by the CPC Central Committee, we can in no way permit many departments to be involved. Second, the principal entity with authority for guiding the performance of cadre work is the Party organization. In terms of cadre selection, training, appointments and dismissals, and utilization, etc, collective discussion and research should be done by Party organizations at all levels in line with the Party's cadre line, guiding principles, policies, standards and supervision jurisdiction, and decisions should be made on the basis of the principle of democratic centralism. In no way can we

allow one or several persons to have the final say. Third, the objects of the authority for guiding the performance of cadre work are Party and state cadres at all levels and of every category. All organizations must strengthen supervision of all cadres in accordance with the requirements of the Party and must do this regardless of the system or type of supervision used. Fourth, the Party leads in the guidance of the specific implementation of cadre work. The major channels for realizing this are as follows: Party organizations directly supervising certain administrative cadres, recommending leading cadres to organs of state power, assuming overall responsibility for macroscopic supervisory tasks in cadre work, and doing their duty in guiding, checking up on, supervising and urging on and coordinating overall cadre work. Opening of these channels must be maintained no matter what the circumstances.

The principle of upholding Party supervision of cadres is determined by the nature, position and mission of a proletarian political party. The Chinese Communist Party is a Chinese proletarian political party, which shoulders the weighty historical mission of building socialism and then communism in China. Only by upholding the principle of Party supervision of cadres, and by selecting and appointing cadres in accordance with the Party's cadre line, guiding principles, policies and standards, can the quality of cadre ranks be maintained and "revolutionized, specialized, knowledgeable and youthful" cadre contingents be truly constructed. Only in this way can all levels of authority be held firmly in the hands of Marxists who uphold the four cardinal principles, and uphold the policies of reform and opening. Such cadre contingents can carry out effective work, turning the Party line into the conscious action of the masses, and achieving its realization in real life situations. It should be stated that Party supervision of cadres is the natural duty of a governing (ruling) party. If the Party does not supervise cadres, then it cannot occupy the position of a governing party, the implementation of the Party's political line loses its organizational guarantee, and the Party's leadership may also come to nothing.

Looking back at cadre work over the last ten years of reform, in general, the principle of Party supervision of cadres has been given attention and been carried out. However, because the bourgeois liberal trends interfere our thinking, the misguided influence of Comrade Zhao Ziyang weakens the leadership of the Party, our understanding of the cadre personnel system and its reform deviates from the practice, its imperfect coordination measures, and because the remnant feudal thinking on people's mentality and behavior, some phenomena involving breaking and deviating from the principle of Party supervision of cadres have surfaced. The principle examples of this are:

1. Indifference to the concept of Party supervision of cadres. In terms of cadre categories for supervision, each department wants to supervise cadres on its own, pointing to the idea of developing democracy, each

wants to deny cadre recommendation by Party organizations, anyone who wishes to bring up the tradition of Party leadership in cadre work is criticized as being conservative and having an ossified way of thinking.

2. The function of Party organization supervision of cadres has been weakened. For a time the idea has been circulating in the society that "resistance to reform of the economic system lies in the planning commission, and resistance to reform of the political system lies in the organizational area." Consequently, in the last few years the phenomenon of various sides competing with Party organizations for cadre supervision authority has emerged, with the result that the number of departments supervising cadres has gradually increased, and they have become mutually independent. In Party organizations at all levels, cadre supervision contingents and capabilities have been weakened, and it has become difficult to properly and effectively carry out the function of cadre supervision.

3. Party cadre standards are not strictly implemented. Undue emphasis is put on age and academic credentials, to the neglect of political quality. In particular, "productive forces standards" have been debased and standards with having both ability and political integrity have been replaced, resulting in heavy emphasis on ability and less stress on moral character, and the erroneous tendency to accept ability in place of moral character. This has given rise to some quite serious problems associated with a so-called "capable person" being promoted to a high position.

4. Cadre supervision work has become quite chaotic. Since cadre supervision jurisdiction was transferred to lower levels, some units have been handling organizational promotion in an unauthorized manner, for example, increasing the number of leadership positions and raising salaries of cadre level positions, and each does what it thinks is right, giving rise to a situation that is "out of control."

5. Cadre work discipline is not strict. During cadre allocation and exchange, undue accommodation is made to the views of departments and cadres themselves, discipline is inadequately enforced, and the phenomenon of assignments not being filled and transfers not being made occurs from time to time. The problem of only moving up (in terms of promotion) and not moving down remains prominent.

6. Unhealthy tendencies are developing in cadre work. The leaders of some units weigh things in terms of the individual, and look on the jurisdiction they are responsible for as a private preserve. They look on cadres as personal possessions, appoint people based on favoritism, and go so far as to exchange flattery and favors and foster personal power, which produces personal attachments and a hidden sectarian mentality.

The existence of the various problems described above not only has a direct influence on realizing the Party's authority in terms of cadre work, but also harms the

building of cadre contingents. The situation associated with the turmoil and counterrevolutionary rebellion in Beijing are related to this, and compel us to have the clear-minded understanding that at no time can we waver in upholding the principle of Party supervision of cadres. If we waver then unimaginable results may ensue.

Such being the case, how can we uphold the principle of Party supervision of cadres? We believe that at present, at the least we must properly understand and properly handle the following four relationships:

1. The relationship between the separate functions of Party and government on the one hand, and Party supervision of cadres on the other. The political system is being reformed in order to strengthen and perfect the leadership of the Party. The functions of the Party and government are separate in order to overcome the harmful practice of having the Party handle all administrative tasks, and to fully arouse the enthusiasm of all quarters. This will enable the Party to function under comparatively detached circumstances and be better able to exercise leadership in terms of the country and social life. Party supervision of cadres is the primary embodiment of the Party's leadership, and is among the basic functions that a party must possess. Separation of the Party and government and Party supervision of cadres are both required for strengthening the leadership of the Party, and we cannot consider separation of the government and Party to mean "the Party and government are like a separated family," each wielding a portion of cadre authority, rather they should exercise joint leadership in terms of cadre work.

2. The relationship between carrying out cadre supervision by category and combining management of people and management of affairs on the one hand, and upholding the principle of Party supervision of cadres on the other. Carrying out cadre supervision by category and combining management of people and management of affairs are aimed at the reform of past situations associated with excessive centralization of cadre supervisory authority, having a single management method, and misalignment in the use and supervision of cadres. This does not in any way imply the negation or weakening of the principle of Party supervision of cadres. On the contrary, it assumes the prerequisite of Party supervision of cadres as a basic principle. If this premise is deviated from, and supervision by category and combining management of people and management of affairs is understood as meaning that each department can create its own system of cadre supervision, this could lead cadre reform work astray. In line with the deepening of reform, the administrative leadership of government departments, enterprises and institutions can be put in charge of a portion of cadres, but this type of supervision still must be done in accordance with the Party's cadre

line, guiding principles, policies and standards as well as stipulated management procedures and must also be carried out under the unified leadership of a unit's Party organization.

3. The relationship between developing democracy and strengthening supervision (control) on the one hand, and upholding the principle of Party supervision of cadres on the other. In cadre work, strengthening the Party's leadership vis-a-vis cadre work requires fully following a mass line. It also requires the continuous improvement and perfection of management methods based on the requirement of furthering the democratization of cadre work, and requires subjecting oneself to the supervision of all sectors of society and the masses. In addition, the goal of upholding a mass line, developing democracy, and strengthening supervision is to strengthen the Party's leadership in cadre work, and to even better carry out the principle of Party supervision of cadres. These two aspects have a dialectical unity. If one takes developing democracy and strengthening supervision as the starting point, casting off and negating the Party's leadership in cadre work, in this way taking these two aspects as being in conflict, then one is liable to have a partial view. This is something we must resolutely guard against.

4. The relationship between upholding the principle of Party supervision of cadres and the improvement of the methods of Party supervision of cadres. The principle of Party supervision of cadres is determined by the nature and position of the Party, and as long as the nature and position of the Party do not change, the principle of Party supervision of cadres must be upheld from beginning to end. In addition, the methods of Party supervision of cadres must be based on the Party's basic line and task, and on conducting the required adjustment, improvement and reform based on the real circumstances associated with the political environment and the continuous reform of cadre work. The concept of upholding the principle of Party supervision of cadre work, and methods for continuously improving Party supervision of cadres are in fact completely consistent with one another. Just as we cannot erroneously consider that the principle has changed just because the methods have changed, we cannot tenaciously defend outmoded methods because the principle does not change. We should note that in past cadre supervision methods, clearly there were some defects and abuses which have to be overcome, but we must be practical and realistic (seek truth from the facts) and we cannot exaggerate these abuses, going so far as to also totally negate some outstanding traditions and effective work methods. Things that were done correctly in the past must be maintained, mistakes that were made must be corrected, and areas that were deficient must be perfected. In this way we will be able to truly ensure that the principle of Party supervision of cadres is implemented and upheld.

NATIONAL AFFAIRS, POLICY

Examination of Socialist Commodity Economy

90OH0402A Chongqing GAIGE [REFORM] in Chinese
No 1, 20 Jan 90 pp 36-64

[Article by Jiang Yiwei (5592 0001 5517): "On Socialist and Capitalist Commodity Economy"]

[Text] The great success China has achieved during the past decade of reform is apparent to and acknowledged by all. Due to our lack of experience, to the fact that reform was insufficiently fleshed out, and to a number of policy errors, temporary difficulties, centered around inflation and typical of the second step in reform, have arisen. To overcome these difficulties, the CPC and the state have unveiled the major policies of improvement and rectification and advancement of reform and have achieved initial success.

Confronted with such a situation, the question of how we should assess and interpret the past decade of reform poses a major problem. Some people believe that our current difficulties were caused by reform and thus are skeptical of and even repudiate reform, a view that obviously is completely mistaken. I believe that, rather than saying that reform is the cause of our difficulties, it is more correct to say that insufficient reform is to blame. "Insufficient reform" carries several layers of meaning: Reform has been insufficiently comprehensive and fleshed out; many reforms have not been put into place or thoroughly carried out; and some reforms have been mistakes. If we adopt this interpretation, our attitude toward reform will be positive and progressive, rather than negative and retrogressive.

Simply put, even avoidance of retrogression will not do. To prevent the historical process of the past decade of reform from failing for want of kick in the final stretch, we must define the objectives and direction of reform by integrating theory with practice. Only when "we know we are right" can we be "bold and assured" and steadfastly pursue our reforms to their established objectives.

The general objective of China's reforms may be summarized in a nutshell: We must blaze a path to socialism bearing Chinese characteristics. What is our objective with respect to the economic system? After many years of empirical and theoretical exploration, the Third Plenary Session of the 12th CPC Central Committee concluded that we should establish planned socialist commodity economy rooted in public ownership. The setting of such an objective represents a major development in Marxism and constitutes a scientific summarization of the experiences of China and other socialist countries by our party. The magnificent success achieved in the past decade of reform proves the correctness of the direction of reform. It is precisely for this reason that, in his many recent speeches, Comrade Deng Xiaoping, in addition to stressing adherence to the four cardinal principles and to reform and opening up to the outside world, has also emphasized that the fundamental road, principles, and

policies that have been pursued since the Third Plenary Session of the 11th Central Committee will not change.

Implementation of planned commodity economy is one of the fundamental policies of the party. To carry this policy out, we must improve our understanding and interpretation of it. Below I shall present some of my superficial ideas on the matter in the hopes of stimulating further inquiry.

I. Is Commodity Economy a Unique Economic Mode of Operation From Capitalism?

The decision to make China's socialist economy a planned commodity economy rooted in public ownership resulted from prolonged debate. An important element in the thinking of comrades who are skeptical of this decision is that they associate commodity economy with capitalism and even believe that carrying out commodity economy means practicing or is bound to lead to capitalism. In the many years of debate, a clear answer has been given to this skepticism. Nevertheless, today, as we effect comprehensive reexamination of the decade-long reform, we need to repeat this answer.

Review of the history of the economic development of human society clearly shows that commodity economy as an economic mode of operation arose long ago. Due to improvement in productive forces and to the development of social division of labor during the late stage of primitive communist society, production and exchange of commodities, an embryonic form of commodity economy, began to emerge. As society advanced, in each historical phase, including slave and feudal society, commodity economy steadily developed according to its own intrinsic, objective laws and, by the time of capitalist society, had attained advanced form and become the basic mode of social economic operation. But this is by no means to say that commodity economy is unique to capitalism. The question is whether or not commodity economy continues to exist and, indeed, to develop as capitalism gives way to socialism.

Theoreticians once believed that capitalist commodity economy is the most advanced and the last phase in the development of commodity economy and that as the capitalist mode of production withers away, the historical mission of commodity economy ends. This inference has been repudiated by more than a half a century of socialist experience. Facts prove that socialist society is not yet communist, in which "each person gives according to his ability and receives according to his needs." In socialism, a transitional historical phase, social division of labor persists, and production and exchange of commodities are still required. Thus, the unavoidable historical conclusion is that capitalist commodity economy extends into the socialist stage of commodity economy.

One interpretation that argues that socialism must practice commodity economy claims that "commodity economy is an unavoidable stage in human history." This claim is reasonable for countries whose commodity

economies are undeveloped but is insufficient and weak to explain why socialist societies must continue to practice this form of economy. To say "unavoidable" implies "making up a missed lesson" and that once the lesson is made up one ultimately enters noncommodity society. The question of whether future human society—the communist society—necessarily will be noncommodity-oriented belongs to the realm of megatheory, requires further exploration, and can only be predictive inference. The real question is whether or not noncommodity society can be achieved during the long phase of socialism. If countries possessing advanced commodity economies and which do not have to "make up lessons" enter socialist society, will they be able to realize noncommodity society? Not in the foreseeable future. First, domestically, since any such country will still be at the socialist stage of "from each according to his ability and to each according to his work," that country cannot but practice commodity production and exchange. Second, globally, for a long time to come the world is bound to have "dual" or "multiple" systems, and international economic activity is bound to be commodity economy. These two factors dictate that the socialist stage of history cannot but see an extension and development of commodity economy.

History demonstrates that commodity economy is a neutral, objective mode of economic operation and exists in societies of all sorts. Since there have been commodity economies in primitive communist, slave, feudal, and capitalist societies, why cannot there be socialist commodity economy? There is nothing wrong with the claim that capitalist commodity economy is an advanced stage in the development of commodity economy, yet there is no reason to believe that commodity economy has reached its final stage in capitalism. If we are convinced that socialism is even more advanced than capitalism, we should believe that socialist commodity economy is a more advanced and perfect form of commodity economy. Even though socialist commodity economy has just begun, is not perfect, and, indeed, must undergo a tortuous process of growth, history will prove that this inference is correct.

We conclude that socialist practice of commodity economy is a historical necessity, that commodity economy is not unique to capitalism and can serve socialism as well as capitalism, and that socialism will develop its own form of socialist commodity economy, which will be even better than that of capitalism. The view that we cannot accept anything associated with capitalism is but a manifestation of "infantile capitalist phobia," a disorder with which we must not cripple ourselves.

II. Do Socialist and Capitalist Commodity Economy Share Common Features?

If we affirm that commodity economy is neutral and possesses its own objective laws, then it is not only a

feature common to both capitalist and socialist commodity economy but also to the commodity economies of all historical periods.

Commodity economy originates in social division of labor, when people treat the goods they produce as commodities, which they take to the market to exchange for commodities produced by other people, whereby both sides satisfy each others' needs. This most primitive form of commodity production and exchange already possesses some of the laws of commodity economy. First, the law of equal-value exchange; second, the law of competition; and last, the law of supply and demand derived from competition, causing prices to fluctuate according to value; and the like. These laws remain the basic laws of the advanced form and thus comprise the common features of commodity economy. So long as they practice commodity economy, different types of societies necessarily must operate in accordance with these laws, which make it possible for the societies to trade with one another in accordance therewith.

Since common features exist in the operational mode of commodity economy, it is not surprising, but rather inevitable, that socialist commodity economy should adopt some of the operational modes and methods of capitalist commodity economy. Think about it. How can we possibly establish a uniquely socialist law of value, of competition, or of supply and demand? Even if such laws did exist, how could we open our doors and enter and assume our proper place in international markets?

Upon reaching the capitalist stage, commodity economy had greatly surpassed its primitive simple form: its composition had greatly expanded; its mode of operation was much more complex; there was an advance from commodities in material form to commodities in their value and spiritual forms; and the concept of the market had greatly expanded with the appearance of a very complex operational mode including stock, financial, and other markets. These operational modes have aspects that are both beneficial and inimical to the healthy development of social economy and elements that are common and those that are unique to capitalism, which is rooted in private ownership. We must concretely analyze and differentiate these things so that we can draw on their advantages and eliminate their disadvantages and thus establish socialist commodity economy.

III. What Are the Basic Differences Between Socialist and Capitalist Commodity Economy?

Socialist and capitalist commodity economy have their uniquenesses as well as common features. What are the fundamental differences between these two forms of commodity economy? This is an important theoretical and empirical question. Only by supplying a correct answer thereto will we have grounds to place the restrictive adjective "socialist" before "commodity economy."

There are several interpretations concerning the distinctiveness of socialist commodity economy. The most

common argues that socialist commodity economy defines commodities differently, for example, excluding land, mines, other resources, and labor. Another interpretation argues that the greatest difference between socialist and capitalist commodity economy lies in the fact that the system of ownership is different. A third interpretation says that the operational systems are different, arguing that an important feature of socialist commodity economy is that it is planned. These interpretations do have some merit but are not completely accurate. For example, with respect to the claim that socialist commodity economy is planned, capitalist commodity economy is by no means completely unplanned. And even if a couple of the aforementioned individual features can be established, it is very difficult to generalize from them an explanation of the fundamental difference between socialist and capitalist commodity economy.

In 1981 I presented a bold interpretation in "On Economic Democracy," which I shall repeat here for the purpose of discussion. I believe that commodity economy is a form of economic motion. The philosophy of Marxism—dialectical materialism—believes that all phenomena in the universe involve movement of matter. There is no matter that does not move, and there is no movement without matter. As a form of motion, commodity economy necessarily also involves both matter and motion, which means that the operation of commodity economy involves both a mechanism and carriers. Only when these two phenomena are inseparably linked is there commodity economic operation. This is like the solar system, which is a system of motion involving celestial bodies and is comprised, foremostly, of the sun, the planets, moons, and other carriers of motion, all of which also must have rules governing their movement. Astronomers can accurately predict these bodies' orbits and cycles. Without either of these two elements, the solar system would not exist. As a system of economic motion, commodity economy also possesses patterns governing these two elements. The operational mechanism of commodity economy, namely, the market mechanism, which is engendered by exchange of commodities, possesses its own laws (or rules), including the laws of value, competition, and supply and demand. These operational mechanisms are common to all commodity economy, and both capitalist and socialist commodity economy revolve around them. Does that mean that there are no differences between socialist and capitalist commodity economy? No. There are differences. The basic difference lies not in the operational systems but the operational carriers of these two forms of commodity economy.

The operational carriers of commodity economy are the various actors that participate at various levels of commodity economic operation. The basic actors are the producers and dealers of commodities, who directly participate in market activity: Industrial, agricultural, commercial, transport, and other enterprises. But these actors are merely the cells of the national economy, the strengthening and healthy development of which depends on the

organization, in accordance with the objective laws of commodity economy, of these actors into a vigorous economic system. Thus the state, as the organizer of the national economy, is also a carrier, and acts at the highest level of commodity economic operations. Enterprises, the most basic carrier, are comprised of two important elements, inanimate and animate. Man is the dynamic element in enterprises, and the people working therein, including owners, managers, and workers, are also carriers of commodity economic operation. The state, enterprises, and working people, carriers at three different levels, are just like the sun, the planets, and moons in the solar system and form the operational system of commodity economy. The operational rules (mechanism) of commodity economy are common; there is no need, nor is it possible, to draw a distinction between socialism and capitalism here. On the other hand, a distinction must be drawn between socialism and capitalism with respect to the carriers of their commodity economic operations, including the state, enterprises, and working people. The 13th National Party Congress stated that the principal difference between socialist and capitalist commodity economy lies in their different systems of ownership. This thesis is most correct. System of ownership is the basic characteristic of enterprises, which are the most basic carriers of economic operation. From this derives the characteristics of the state, which serves to organize the national economy, and of the people working within enterprises, including owners, managers, and workers. The sum total of these characteristics forms the basic difference between socialist and capitalist commodity economy.

What are the socialist characteristics of the state, enterprises, and working people? Do these features conflict with commodity economy? Below, we must provide concrete analysis of these questions.

IV. Does Public Ownership Conflict With Commodity Economy?

As the basic carriers of the operation of commodity economy, enterprises can be either capitalist or socialist. An important feature of socialist enterprises is that they practice public ownership of the means of production. Socialist economy is planned commodity economy rooted in public ownership. In establishing this thesis, our party doubtlessly believed that public ownership and commodity economy are compatible. But this thesis has by no means been accepted by everybody. Some people with a "leftist" perspective believe that commodity economy is a product of private ownership and that socialism, since it is rooted in public ownership, should not and cannot practice commodity economy. People holding rightist views also believe that public ownership and commodity economy are incompatible but conclude that commodity economy can only mean privatization. The former view opposes while the latter favors commodity economy, but both share a common belief that public ownership and commodity economy are diametrically opposed.

Are public ownership and commodity economy truly incompatible? Neither theory nor practice can lead us to conclude that the two necessarily are absolutely antithetical.

The operational mechanism of commodity economy requires that enterprises serve as independent producers and dealers of commodities and take the commodities they produce or deal into the market to exchange for other commodities. In the marketplace, enterprises act as owners of their commodities; the question of who owns the enterprise's means of production has nothing to do with the marketplace, and buyers care not a whit and would never think to ask if sellers are privately or publicly owned but concern themselves only with the quality and prices of commodities offered for exchange. Although capitalist countries are rooted in private ownership, they too have a few publicly owned enterprises, including state-owned concerns and collectively owned enterprises in which employees hold shares of stocks, which smoothly move in the orbit of capitalist commodity economy. In international markets, the publicly owned enterprises of socialist countries also deal without hindrance with the private enterprises of other countries. Whether in terms of theory or practice, there is absolutely no basis for the claim that public ownership and commodity economy are diametrically opposed.

The reason socialism desires to replace private ownership with public ownership is to better unleash productive forces. The specific objectives, in sum, are two. The first, macroscopic, is to use public ownership as the basis, thereby focusing our effort on the interests of greater society, and to more rationally utilize resources and coordinate the development of the national economy. The second, microscopic, is to transform workers into the owners of the means of production, to transform "rule of matter over man" into "rule of man over matter," and to give full play to human enthusiasm, initiative, and creativity. Regrettably, although many major successes have been recorded in the more than one half of a century of socialist experience, we have failed to discover an effective means by which to achieve these two objectives and mistakenly believed that the objectives could be attained through the adoption of highly centralized "product economy," which is completely dependent on targets, quotas, and administrative fiat. This approach produced an ossified economic system and dampened the enthusiasm of both enterprises and workers in a state of affairs that prompted socialist countries, at the urging of real Marxists, sooner or later to seek a path to reform. Our party defined this path as "planned commodity economy rooted in public ownership," a move that is derived from historical experience both at home and abroad and constitutes a major development of Marxism.

Rooting ourselves in public ownership means basing ourselves in publicly-owned enterprises. In commodity economy, enterprises must manage themselves autonomously, bear responsibility for their own profits and

losses, undertake their own accumulation, develop themselves, and produce and deal in commodities independently. This frees the enterprises from being subordinate appendages of administrative agencies and transforms them into vigorous economic entities, a move that is an important prerequisite for the development of social productive forces. However, the fact that enterprises function as commodity producers and dealers and the enterprise behavioral mechanism thereby engendered are not unique to socialism but are common to all enterprises in commodity economy. The primary trait stamping enterprises as socialist is the fact that their means of production are publicly owned.

The nature of enterprises has no effect on their behavioral mechanism within commodity economy but does exert a decisive influence on the productive relations within them.

There are many forms of socialist public ownership: State, which means that ownership belongs to all people; collective, which means that ownership belongs in common to all workers within the enterprise; cooperative, which means that ownership belongs to individual workers within the enterprise; and public ownership by social groups. Socialist enterprises can be subject to a single form of public ownership or a mixed form combining a number of the aforementioned types of ownership. State ownership facilitates state macroeconomic regulation and control, while collective and cooperative ownership facilitates direct linkage of workers and the means of production such that workers truly feel that they are their own masters. Dominated by the "leftist" notion of "bigger and more public," we used to divide public ownership into various grades, believing that public ownership was the highest form of and even equating it, consciously or unconsciously, with state ownership. This one-sided approach prevented us from giving full play to the superiority of public ownership. The correct approach is to enable all forms of public ownership to develop and play their proper roles and to coordinate those forms. This will facilitate both state macroeconomic regulation and control and the effort to make enterprise workers feel that they are their own masters, to make workers the owners of the means of production, and to achieve the desideratum raised by Marx—to transform "rule of matter over man" into "rule of man over matter." Only when socialist enterprises assume these traits will socialist commodity economy be superior to capitalist commodity economy.

V. If Socialism Practices Commodity Economy, Will Labor Necessarily Become a Commodity, Too?

Workers also are carriers of the operation of commodity economy. As stated above, we believe that the fundamental difference between socialist and capitalist commodity economy lies not in their operational mechanisms but in the carriers of their operations. Thus, there is and must be an essential difference between the carriers thereof. This involves the question of whether or not labor is a commodity.

Proceeding from the principles of socialism, some comrades argue that the major difference between socialist and capitalist commodity economy lies in the fact that labor is not a commodity. Other comrades proceed from the laws common to commodity economy and argue that socialist commodity economy inevitably will create markets for all types of commodities, that the factors of production all will be exchanged on markets, and that this entails the establishment of labor markets. Since labor is exchanged on markets, how can labor not be a commodity? These comrades also argue that the free movement of workers is an important condition for the implementation of commodity economy. Comrades holding the first view cannot deny the necessity of establishing labor markets and have failed to explain the characteristics and role of socialist labor markets. Comrades holding the second view, on the other hand, cannot explain the difference by which socialist and capitalist workers are recruited.

I believe that to answer this question we must first of all avoid sweeping generalization with respect to the issue of whether or not labor in China is or is not a commodity. Chinese socialism remains at the preliminary stage, and while public ownership plays the leading role, a small amount of private ownership is permitted to exist and to appropriately develop as a supplement to public ownership. If a worker voluntarily accepts hire by a private company, he is selling his labor and becomes wage laborer, no matter how high or low his remuneration. In this situation, there can be no doubt that labor is a commodity. The question is whether or not a worker who accepts work in a public enterprise is selling his labor. If so, who is the buyer?

The means of production in publicly owned enterprises is owned by the workers (for state-owned enterprises, by all the workers in the country; for collectively owned enterprises, by the collective workers in the enterprise; and for cooperative-owned enterprises, by the individual workers in the enterprise). The nature of enterprises ought to be as Marx described: "Free and equal associations of producers." When workers accept work in publicly-owned enterprises, they become the labor collective in the enterprise. This move results from the two-way choice of the labor collective and the individual worker. An individual worker can freely choose to join a particular labor collective, and the latter chooses its partners according to certain criteria. Once a worker joins a labor collective, he becomes an equal member, not a wage laborer of that enterprise. This point should be the most important characteristic of socialist enterprises.

Objectively speaking, when socialism carries out commodity economy, labor markets facilitating free movement of labor must also arise. In these markets, workers can choose to go to publicly owned or privately owned enterprises. The former choice involves "joining a partnership," while the latter constitutes selling one's labor. The difference between these two choices lies in the pricing mechanism for labor. When one sells one's labor,

namely, as a commodity, its price is influenced by the law of market supply and demand. The hirer and the hiree agree on a wage price based on the market rate and conclude a transaction. When a worker chooses a public enterprise, he, too, is likely to take into account his potential remuneration, benefits, and material gains. But since publicly owned enterprises practice two-step distribution according to the amount of work done, a worker's earnings are determined first of all by the collective output of the entire enterprise and then by the amount of labor he has contributed. Thus, the earnings of workers in publicly owned enterprises are not determined by labor market prices but by the joint effort of the labor collective; good and bad times are shared, and individual income differences are determined by individuals' contribution to the total collective effort.

Clearly, in socialist society, workers under all different ownerships of enterprises choose their jobs through the marketplace, but the nature [of these ownerships] are as different as night and day. Furthermore, in choosing their jobs, workers consider many factors, including vocational interest, opportunity to put their skills to use, or personal ties; and to achieve other goals workers may choose jobs with lower pay. Thus, to conclude from the fact that, in socialist commodity economy, workers choose their jobs through the marketplace and that labor force in publicly owned enterprises is also a commodity is clearly inappropriate.

VI. Are Planning and Markets Antithetical?

As the organizer and manager of the national economy, the state is also an important carrier of commodity economic operation. There necessarily is a major difference in the role of this carrier in socialist and capitalist commodity economy.

Although all modern states have to effect necessary management and organization of the operation and development of their overall national economies, in socialist economy, which is rooted in public system of ownership, the state can and must play an even greater organizational and managerial role.

In managing the national economy, the state generally formulates a plan for that economy and adopts certain policies and measures to promote achievement of the plan. All modern capitalist countries effect varying degrees of planned control over the development of their national economies. Socialist countries used to employ highly centralized and all-encompassing planned management systems and thus have been called planned economies. This has given rise to much misunderstanding. It would seem as if planned economy is unique to socialism, whereas commodity economy is unique to capitalism and that the two economies are totally different and diametrically opposed. If, under such misunderstanding, one proposes that socialist countries implement commodity economy, one would appear to have departed from socialist principles and to be advocating capitalism. Debate raged over this issue for many years,

and it was not until the Third Plenary Session of the 12th Central Committee that a conclusion was reached: Socialism can effect planned commodity economy rooted in public ownership. Nevertheless, conceptual confusion still abounds, especially in perceptions of the relationship between planning and markets, and that confusion additionally involves the question of the role of the socialist state in managing its economy.

Are planning and markets diametrically opposed? To answer that question, we must go to the root and clarify the concepts of planning and markets.

To implement commodity economy, one must have markets. In its broad sense, "market" means the act of exchanging commodities; and in its narrow sense, the term means the place in which commodities are exchanged. Practicing commodity economy means production and exchange of commodities. Commodity economy is an objective mode of economic operation and possesses its own objective laws—the laws of value, of competition, of supply and demand, and the like, which are embodied in market activity and thus can be summarized as the market mechanism. This market mechanism serves to regulate commodity prices and even the commodity production, product structure, and others, thus is also called market regulation. All of these phenomena are objective and inevitable when one practices commodity economy. Since commodity economy is not unique to capitalism, the aforementioned market mechanism also is not unique to capitalism.

As concepts, planning and markets differ totally in nature. Planning is not a mode of economic operation but merely the predicted or expected goals of economic operation and is ideological. In "On Practice," Comrade Mao Zedong explicitly stated that plans, programs, and the like all belong to the realm of ideology. Markets objectively exist in economic operations, while planning is a subjective act of forecast and guidance of economic operations. Thus, these two concepts are not in the same category. In terms of the relationship between the subject and object, the state is the subject, planning is the act of the subject, and markets created by commodity economy are the object of the act. The relationship among these three elements forms a simple sentence: State, planning and control, markets. In this sentence, "state" is the subject, "planning and control" the verb, and "commodity economy" or "markets" the object. The state can use planned management to regulate and control commodity economy and markets, just as the state did with respect to product economy and to the direct distribution of products. Commodity economy and product economy are coordinate concepts. Even if one insists on calling them antithetical, they are antithetical concepts of the same category. But there is no antithesis whatsoever between commodity economy and markets, which are "objects," and planning, regulation, and control, which are "verbs"; rather, this relationship is subordinate. Failure clearly to grasp the true nature of these concepts will inevitably engender confusion in logic.

By adding the adjective "planned" before "socialist commodity economy," we stress the issue that socialist countries must be adept at using planning to regulate and control commodity economy. This is both necessary and logical. State planned management of commodity economy includes formulating plans and adopting a variety of economic, legal, and administrative regulatory and control measures so as to promote achievement of plan objectives. Here we must also clarify a number of conceptual problems, namely, that planning does not equate to command planning but rather includes command planning, as well as guidance planning and thus, encompasses the entire national economy. Hence, it is illogical to divide the national economy into planned economy and market economy. When we said that we were decontrolling some commodities and letting them become subject solely to market regulation, it appeared as though those commodities were no longer covered by planning, which is not the case. What commodities did we decide to decontrol? We stipulated on one occasion, for example, that 50 types of minor commodities would be decontrolled—a move that also constitutes planning. Moreover, once decontrolled, those commodities were supposed to be subject to guidance planning and thus still were covered by planning.

As a mode of economic operation, commodity economy and markets deriving therefrom also should encompass the entire national economy. There can be two types of markets: Those that are directly controlled by the state and which Comrade Chen Yun has called "state markets," and those that are indirectly controlled by the state and which Comrade Chen Yun has called "free markets." These two types of markets can expand and contract, processes that are determined by state policy. But their sum total comprises the entire, unified socialist economy. Thus markets, too, encompass everything.

In accordance with the above concepts, planning and markets encompass everything and do not relate to each other and to the national economy as patches form a quilt but rather comprise a double layer of all-encompassing coverage and are not antithetical but merely relate to each other as "control" does to the "controlled." Thus, the use of "planned commodity economy" to describe the traits of socialist commodity economy is fully logical.

In implementing socialist commodity economy, we first of all determined that we would organize the entire national economy in accordance with the operational mechanism of commodity economy. This decision was arrived at only after socialist countries paid several decades of "tuition." The decision did not come easily, and if we waver on or reverse it, we will squander a decade of achievement in reform and set back the effort to build socialism with Chinese characteristics incalculably. The question now is how, on the basis of a decade of experience with reform, we can establish, in accordance with the objective laws of commodity economy, a new system of planning, regulation, and control whose object is commodity economy and which differs from the system that had product economy

as its object, so that we can advance to the second step of reform and achieve new breakthroughs.

The 13th National Party Congress advanced the scheme of "the state regulates markets, and markets guide enterprises," an approach that was derived from many years of investigation by theoreticians and practical workers. Some comrades are skeptical of this formulation, believing that it overemphasizes the role of markets. I feel that theoretical analysis demonstrates that it is tenable and that, if it has some flaws, that is only because it is insufficiently comprehensive. Generally speaking, when socialism practices commodity economy, markets should encompass everything, state macroeconomic regulation and control principally should be targeted on markets, and markets should be used to guide enterprise behavior. Nevertheless, state regulation and control is by no means limited to markets: The state can also use the assets it owns to effect direct regulation and control of enterprises, which practice, of course, does not mean direct interference in autonomous enterprise operations but rather is to be effected in the following major ways. First, in the area of production, the state should place orders for goods, an approach that would differ from the current practice of issuing command assignments to enterprises; involve having producer goods and materials or commercial departments sign contracts, in accordance with the state plan and with the principle of keeping authority in line with responsibility, placing orders for goods and setting delivery volumes and times therefor; guarantee supply of the things enterprises need to produce the ordered goods, ensure rational prices, and the like; and obligate enterprises to give priority to the acceptance of state orders. Second, state investment companies would use the profits earned by state-owned assets to reinvest according to plan so as to rationally restructure the economy. Reliance solely on the market mechanism to restructure the economy is unrealistic, too slow, and too costly. State investment would do the job more promptly and effectively, which is one of the major advantages of socialism. In addition, the state can obtain controlling interest in important enterprises and, in accordance with the principle of separating ownership and management, set the general policies for the operations of key enterprises. These direct control methods naturally differ from "the state regulates and controls markets, and markets guide enterprises" but would be effected in accordance with the intrinsic laws of commodity economy and thus would also differ from the old system, in which administration and enterprise were not separated and enterprises were subject to direct management through administrative fiat.

VII. Brief Summary

With regard to the operational mechanism of socialist commodity economy, we can rely on and follow entirely the intrinsic laws of commodity economy. In this area, there is no need to differentiate socialism and capitalism; therefore, we can boldly draw upon the effective, successful experience of capitalism so as to rise above

our predecessors by using their experience as a foundation and gradually creating a better system of commodity economy.

In terms of the operational carriers of socialist commodity economy, socialist features are necessary, principally, with respect to the status and roles of workers, the nature and characteristics of enterprises, and the unique role of the socialist state in effecting macroeconomic regulation and control. Preservation and development of these features will give full play to the potential superiority of socialism and blaze a new path to socialism bearing Chinese characteristics.

The international communist movement stands at a historic turning point. Under the leadership of the CPC, the great Chinese people have achieved great success in their decade of reform and accumulated valuable experience, all of which was accomplished with Comrade Deng Xiaoping as the master architect and through the joint efforts of the CPC and the people of the entire nation. We should cherish these hard-earned achievements and steadfastly continue, while adhering to the four cardinal principles, to hold high the banner of reform and of opening up to the outside world and strive to make historic contributions to the development of Marxism and to the blazing of a trail for the progress of socialism.

'Errors' in National Income Distribution Affect Economy

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[Article by Wei Jie (7614 2638) and Qu Zengmin (1448 1073 3046): "Strictly Control the National Income Distribution Process"]

[Text] The major problems facing China's economy are the excessive total demand and imbalance of the economic structure. These problems are closely related to errors in the guiding principle for economic development and serious shortcomings of the present economic system, but we have to fully recognize that one of the direct causes of excessive demand and imbalance of the economic structure is the erroneous distribution of national income. Therefore, to solve these problems and achieve the goals of the economic readjustment successfully, we must firmly correct the errors in national income distribution and strictly control the national income distribution process.

Analysis of the Factors Relating Erroneous Distribution of National Income to Excessive Total Demand and Imbalance of the Economic Structure

Erroneous distribution of national income refers to all kinds of mistakes made in the national income distribution process. The major mistakes include excess distribution of national income, imbalance of the structure of national income distribution, mistakes in the direction of national income distribution, and serious losses in the

distribution process. These major mistakes have been made repeatedly in the national income distribution process in the past few years. They have indirectly or directly caused the excessive growth of total demand and the imbalance of the economic structure.

First, the excess distribution of national income has directly caused the excessive growth of total demand. In a commodity economy, which is the form of China's economy, national income often comes in two forms, namely, material national income and monetary national income, which go through different processes and appear as different macroeconomic quantities. Material national income is sold in the markets and actually appears as the total supply. Monetary national income, through distribution, becomes the income of various economic bodies and ultimately appears as the total demand. Because monetary national income is money, represented by paper currency issued by the state, excessive issuance of currency will result in excess distribution of monetary national income, and ultimately the total demand, which is represented by monetary national income, will exceed the total supply, which is represented by material national income, resulting in excessive growth of total demand. An excessive portion of national income has been earmarked for consumption in the past few years. The total amount of excess distribution is estimated at about 500 billion yuan, which has resulted in an extremely serious increase in total demand. For example, in the past few years, the total investment demand has increased by an annual average of 26.8 percent, but the supply of investment items has increased by an average of only about 15 percent per year. Also for example, society's surplus purchasing power now stands at 540 billion yuan, 14 times that in 1978 and 3.7 times that in 1983, an average annual increase of 30 percent. In a word, excess distribution of national income has caused an extremely serious increase in total demand.

Secondly, the imbalance of the structure of national income distribution has exacerbated the excessive growth of total demand. In the past few years, the distribution of national income in China has tilted increasingly toward individuals. Individual income rose from 30 percent of national income before the reform to 65 percent in 1986 and has continued to increase in the last few years. Thus the structure of national income distribution has changed significantly. This change in the structure of national income distribution has stimulated the sharp increase in total demand in two ways. On the one hand, the inordinate increase of individual income in proportion to national income has stimulated the sharp rise of consumer demand, which in turn has increased the total demand. Under China's present economic system, because it is very difficult for an individual to make a direct investment with his income or invest it in financial assets, and because the inflation rate is often higher than interest rates on savings, individual income is generally used for consumption, causing consumer demand to grow far beyond the production

capacity. The rapidly growing consumer demand has ultimately stimulated and accelerated the growth of total demand. On the other hand, while the excessive growth of individual income has reduced the proportion of national income for society and especially the central government, society and the central government still have to meet the investment goals, and the gap between revenues and expenditures becomes increasingly wider. With revenues falling short of expenditures, the government is ultimately forced to support the necessary investment activities by issuing more paper money. The result is excessive growth in investment, which in turn stimulates the increase in total demand.

Thirdly, mistakes in the direction of national income distribution have led to the serious imbalance of the economic structure. Two major mistakes have been made in the direction of distribution in the past few years. 1) Regarding the subjects of economic activities, the distribution of national income has been tilting increasingly toward the small enterprises and town and township enterprises. For example, since 1985, the town and township enterprises have grown at an average annual rate of 34.7 percent, and their total assets have grown at an average annual rate of 37.7 percent, but their own accumulation makes up only 10.1 percent of their present worth, and the remaining 89 percent has been obtained from the expanding loan funds. In other words, the town and township enterprises' rapid growth is supported mainly by the larger share of national income society has given them. The tilting of the distribution of national income in favor of the small enterprises and town and township enterprises has produced the following result: The small enterprises and town and township enterprises, which are mainly engaged in processing, have expanded continuously and blindly because they have a large share of the national income, and the processing industry has become more and more "overdeveloped"; the large- and medium-sized enterprises, which are mainly basic industries, have not been effectively developed because their share of the national income is insufficient, and the basic industries have become more and more "underdeveloped"; thus, the economic structure has become seriously out of balance. 2) Regarding the economic structure, if the distribution of national income is tilting significantly toward the processing industry, the energy, raw and semifinished materials, communications and transport, and other basic industries will not be able to obtain the needed resources. For example, owing to the irrational investment and tax systems, the localities are increasingly inclined to invest in the processing industry for easy profits and quick results, while the basic industries are unable to obtain needed investment. For another example, the irrational price structure has enabled the processing industry to sell products at high prices and huge profits, which has stimulated the blind growth of factories producing such highly profitable goods as color television sets, refrigerators, pull-tab cans, beer, and microwave ovens. In contrast, the prices and profits of the basic industries are low. Thus an ever greater share of

the national income is being attracted to the processing industry, causing the serious imbalance of the economic structure. In short, the distribution of national income in the wrong directions has directly led to the imbalance of the economic structure.

Finally, losses of national income have also contributed to the increase of total demand and imbalance of the economic structure. These losses have been quite serious in China in the past few years. For example, under the "double-track" price system, the wide price gaps have provided the conditions and basis for some people to use their distribution power and the price differences to make money for themselves, causing serious losses to national income. In 1987 alone, about 20 percent of national income (about 200 billion yuan) were lost. Owing to the serious losses, the national income controlled by the state is dwindling, but the state's burdens, including investment in the basic industries, various expenditures, and subsidies have kept growing, and the gap between state revenues and expenditures has become wider and wider. Ultimately the state has no choice but to issue more paper money to keep things going, and the result is inflation and excessive total demand. Moreover, the serious losses of national income have also caused the continuous increase in extrabudgetary investment and the circulation of funds beyond the channels of the banks, making it impossible for the state to effectively control the investment structure and further throwing the economic structure out of balance.

The above analysis shows that the errors in national income distribution are one of the direct causes of the excessive growth of total demand and the imbalance of the economic structure. Therefore, the rectification of the national income distribution process must be made an important part of the economic readjustment. Practice has shown that if national income distribution can be brought under control so that there will be no mistakes in the amount, structure, and direction of distribution and no losses in the distribution process, then there will be no excessive growth of total demand and imbalance of the economic structure. It is, therefore, imperative for us to firmly control the process of national income distribution to insure the sustained, stable, and harmonious development of the national economy.

Policy Suggestions for Controlling the National Income Distribution Process

First, it is imperative to firmly control money supply and eliminate inflation. Excess distribution of national income is supported by an excess supply of currency. Excess distribution of national income is actually inflation. Therefore, to put an end to excess distribution of national income, it is necessary to control money supply and stabilize currency value. So long as money supply is kept under control, there will be no excess distribution of national income. In the light of the present conditions in China, to prevent money supply from getting out of hand, it is imperative ideologically to establish the guiding principle of currency stability, and to legally and

institutionally insure the independence of the central bank by relevant laws and specific regulations so that it will be able to supply money according to the actual needs of economic activities, uninfluenced by certain individuals or government departments within its business activities. In the near future, revenue and currency issue must be separated completely by law, and the relationship between government finance departments and the central bank must also be fixed by law. The issuance of currency for noneconomic purposes must be stopped.

Second, efforts should be made to readjust the present structure of national income distribution as soon as possible, and the portion of national income that goes to society and especially the central government should be properly increased. In view of present conditions, it is necessary to approach the problem both macroeconomically and microeconomically. Macroeconomically, it is necessary to maintain a suitable proportion between state income, collective income, and individual income, making sure that the three will grow proportionally. Generally speaking, only when state income and collective income have increased considerably can there be a moderate increase in individual income, and individual income must not be allowed to increase faster than state income and collective income. The growth rates set by the state for state income, collective income, and individual income must be protected by law and must not be broken by anyone. Microeconomically, it is necessary to maintain a proportional control over distribution in enterprises; that is, to set a ratio between an enterprise's accumulation and consumption, between the growth of economic returns and the growth of consumption fund, between the increase of labor productivity and the increase of income for workers and staff members, and for the distribution of after-tax profits retained by the enterprise. The enterprises may not change or violate these state-set ratios at will. This is the only way to rationalize the structure of national income distribution and thereby put an end to inflated total demand caused by irrational distribution of national income.

Third, the directions in which national income is distributed must be readjusted in every possible way so that a larger portion of national income will flow into the basic industries. For this reason, it is necessary first of all to adopt a preferential policy for the basic industries to guarantee that their needs will be met, and, according to this principle, a list of priority investment projects and products should be prepared, specifying what should be given priority and what should be abandoned, what should be developed and what should be cut back, making sure that the basic industries will get the needed resources. Next, it is necessary to further improve the present investment and tax systems and readjust the irrational price structure to enable enterprises in the basic industries to make good profits, prevent enterprises in the processing industry from making huge profits by expanding blindly, thus fundamentally change the pattern of low prices and low profits for the basic

industries and high prices and high profits for the processing industry, and ultimately make the direction of national income distribution conducive to readjusting the economic structure.

Fourth, it is necessary to plug all the loopholes and basically stop the serious losses of national income. For the near future, it is necessary to do the following: 1) It is necessary to strengthen the tax system, collect taxes according to law, and prevent the loss of national income through tax evasion. 2) It is necessary to rectify the order in credit management, strengthen the central bank's role in controlling the scale of credit, set quarterly and monthly loan ceilings, prevent the loss of national income through credit loopholes, and be sure to recover loans when due. 3) It is necessary to rectify the circulation order, make serious efforts to stop the enormous losses of national income in the area of circulation, and reform the double track price system as soon as possible to stop the serious losses of national income through the loopholes of price differences. 4) It is necessary to strengthen the central government's authority to regulate and control the total amounts of revenues and expenditures, currency receipts and outlays, and foreign exchange receipts and outlays and continue to improve the revenue and expenditure contract system, the foreign trade contract system, the deposit and loan contract system, and so forth to prevent the losses of national income through the financial, currency, and foreign exchange loopholes. 5) It is necessary to control the total amounts of the compensation funds, accumulation funds, and consumption funds and to conduct necessary regulation and control over individual income to prevent the serious losses of national income in microeconomic activities.

Reform, Rectification Called Complementary Policies

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[Article by Liu Xiuwen (0491 0258 2429), Chen Juqi (7115 1446 1142), and Huang Weishi (7806 4850 0169). Qiu Dongdong (5941 0392 2639), responsible editor: "More Emphasis Should Be Placed on Deepening of Reform During the Campaign To Improve the Economic Environment and Rectify the Economic Order"]

[Text] It has been discovered through over a year of improving the economic environment and rectifying the economic order that the increased money supply was only a superficial cause of 1988's skyrocketing prices. Although the real increase in purchasing power that represented an increase in the money supply has begun to be brought under control, the price rise trend has eased, and the overheated economy has been quickly cooled down, not only have deeper economic problems in areas, such as the worsening of enterprise economic efficiency and the defects in our economic structure and economic system, not basically been dealt with, but controlling the money supply has also created certain

new problems. This shows that correctly handling the relationship of improving the economic environment and rectifying the economic order to deepening of reform, has become a current issue of great immediate significance that is going to be hard for us to dodge. We will discuss our views on the issue below.

Improving the Economic Environment and Rectifying the Economic Order, and Deepening of Reform, Must Complement Each Other

Faced with too fast and too much devolving of power to lower administrative levels and conceding of profits during a decade of reform that greatly weakened the central government's macroeconomic regulation and control capacity, it must be said that emphasizing a little more centralization and planning and taking certain temporary administrative regulation and control steps during the period of improving the economic environment and rectifying the economic order, are necessary from the angle of current conditions and performance results. They are certainly not a return to the old system, not only because they certainly do not reverse our reform direction, but also mainly because they are a perfection of reform steps and lay the groundwork for further deepening of reform. In fact, new ways of deepening reform are always being explored to correctly handle relations between the central and local governments and the state and enterprises, better combine centralization with decentralization, and better integrate the central government's ample macroeconomic regulation and control capability with full arousing of local and enterprise initiative. In this sense, certain steps taken to improve the economic environment and rectify the economic order are actually a part of deepening of reform.

At the same time, it must be pointed out that it will not do to rely on administrative measures alone to improve the economic environment and rectify the economic order. For instance, in using government subsidies to limit price rises, a city has to spend hundreds of millions of yuan of financial subsidies just to reduce prices one to several percent and achieve momentary price stability. This not only increases financial deficits and makes it hard for financial policies to succeed, but also distorts prices more and is even less favorable to economic restructuring. As to this issue, the TV film "Song of Oneheartedness" has often had an economic impact of leaving people with a sense that financial subsidies are good music to hear. Obviously, these kinds of purely administrative measures are both hard to sustain, and also go against the original intention of improving the economic environment and rectifying the economic order. This applies even more so to coercive ones, which can play only a temporary role of getting instant results in dealing with superficial economic issues, but may be powerless to resolve deeper ones in areas, such as our economic structure and system.

Of course, our history contains precedents for using a highly centralized directive planning system to achieve short-term economic restructuring. For instance, after

the "great devolving of authority to lower administrative levels" and the Great Leap Forward of 1958 caused serious economic difficulties, such a system was relied on in 1961 and 1962 to highly recentralize the enterprise management rights, financial revenue and expenditure authority, credit authority, and materials distribution rights that had been devolved to the local level, and to carry out industrial restructuring according to "conventional" divisions, in order to achieve economic restructuring. But it must be pointed out that since a structure of diversified economic interests has begun to evolve through a decade of reform, administrative measures alone will not be effective unless actions are guided adroitly by commodity relations and market forces. Thus, in the current campaign to improve the economic environment and rectify the economic order, it will be necessary to act as much as possible according to the laws of value and economics, and to use economic measures as much as possible. If we do not, it is entirely possible that latent and deeper economic problems will create trouble again, as soon as administrative control is eased after the task of improving the economic environment and rectifying the economic order is finished. In fact, the temporary difficulties that are being encountered by various parties in the current campaign to improve the economic environment and rectify the economic order, and the pressures that they reflect, may force us to ease control, just as we were forced to make our monetary policy more flexible in the fourth quarter of 1989. Thus, our vigilance must be fully aroused, and certain radical steps must be taken to more closely integrate improving the economic environment and rectifying the economic order with deepening of reform.

Of course, we must not be overanxious for quick results in deepening of reform, which is certainly not accomplished by constantly putting into effect major reform measures alone. In fact, since reform is a process of steady improvement, focusing deepening of reform on improving the economic environment and rectifying the economic order is both very important and well worth doing. Particular attention should now be paid to keeping certain reform steps that have been taken to improve the economic environment and rectify the economic order from being rashly negated. Of course, although we should and must correct certain measures taken to improve the economic environment and rectify the economic order that were ineffective or had extreme side effects, we must act mostly to maintain and improve those that have been put into effect, in order to consolidate a decade of reform successes while preventing a return to the old system or the recurrence of old problems.

Deepening of Economic Reforms

Although we have experienced three major losses of macroeconomic control in a decade of reform, every time our economy becomes overheated and our national economy gets in a tight spot, people usually put too much of the blame for increased demand on "brain fever," i.e., on errors in our macroeconomic guiding ideology and

the policy mistakes that they cause. Although it cannot be said that this blame is completely misplaced, it is fruitless to search for the causes of our repeated macroeconomic failures anywhere else than in the defects in our economic system. It should be pointed out that our economic difficulties are deeply rooted in our never having been able to really change the guiding ideology of our earlier development and reform process, our reforms being neither deep enough nor complete, and the instability of our policies. For instance, while we have never been able to basically change our traditional economic development strategy of disregarding economic efficiency and blindly striving for a faster rate of growth, and we are highly affected by a guiding ideology of impatience for success, the basic and deeper cause of our economic difficulties is still the imperfections in our economic system. Moreover, these deeper economic issues can neither be resolved by, nor dodged in the process of, improving the economic environment and rectifying the economic order.

1. Our economic system has grave defects. The major inherent defects in our economic system are investment starvation, quantitative motivation, and the resulting inflationary impact, which were certainly not rooted out by our reforms. The devolution of too much authority and conceding too many profits to enterprises and local governments, along with our overemphasis on building stimulation forces to the neglect of building restraining ones, created the following dilemma instead: On one hand, our microeconomic expansion forces were strengthened before corresponding restraining forces and macroeconomic regulation forces had been established. On the other, our former direct regulation and control measures were negated too soon before new indirect ones had been perfected or even existed, and the macroeconomic regulation and control capability of the central government was certainly greatly weakened before the self-regulation capability of enterprises and local governments had been established. These were the roots of our overheated economy and system disorders of recent years. It goes without saying that this dilemma can be gradually resolved only by transforming our economic forces through all-out deepening of reform.

2. It is going to be quite difficult to restructure our economy. The problems in our economic structure are basically the result of long-accumulated problems in our economic system. Our campaign to improve our economic environment and rectify our economic order has entered a key phase of restructuring. Although tightening our money supply was a prerequisite for restructuring, and the market slump has given us room to maneuver in revising our product mix, restructuring will be much harder than controlling the money supply. On one hand, problems such as our critical imbalance between industry and agriculture, our imbalances within industry, the worsening of our interregional economic structure, and the deterioration of our industrial structure, are not mainly issues of incremental restructuring, but rather of restructuring reserves, which will be hard to

accomplish in a short period of time. On the other hand, although resolving our structure problems will be restricted by many factors, such as the necessary closing down, stopping of production, and transforming to restructure, not finding good solutions for the problems of enterprise staff members and workers and allowing too much unemployment may also create social instability. This would not only make it hard to effectively restructure industrial reserves, but would also make it very hard to carry out incremental restructuring, due to the limited role of price forces and to financial decentralization. These interrelated conflicts will make it harder to restructure our economy.

3. The economic efficiency of our enterprises is worsening. Although increasing the economic efficiency of our enterprises is the aim of improving the economic environment and rectifying the economic order and the basic way to realize this aim, the issue of enterprise economic efficiency is actually an overall reflection of system and structural problems that have been building up for many years. Although our GVIO [Gross Value of Industrial Output] grew at an average rate of 15.6 percent a year from 1978 to 1988, our industrial losses continued to increase, the losses of our state-owned, independently-accounted industrial enterprises reached 17 billion yuan, and over 20 percent of our industrial enterprises incurred losses in 1988. The fund-profit-tax rate of state-owned, independently accounted industrial enterprises dropped from 24.2 percent in 1984 to 20.3 percent in 1987, causing profit and tax losses of 29.38 billion yuan in 1987. Extrapolating from these figures, 30.75 billion yuan of industrial profit and tax losses were incurred throughout China in 1987, or more than the profits and taxes earned that year by the five provinces and municipalities of Beijing, Shanghai, Tianjin, Liaoning, and Guangdong combined. The efficiency of our industrial enterprises continued to drop in 1989 and, by the end of November, profits had decreased 19.3 percent and realized profits and taxes of 0.2 percent, while cost overspending had reached a high of 20 percent and losses incurred by enterprises had increased 1.4 times. In summary, the big fluctuations in our industrial economic efficiency and its generally low level since the founding of the PRC, as well as its decreasing trend in 1990, is a long-range issue that will take much hard work to resolve, and a situation that will be hard to reverse all at once through improving the economic environment and rectifying the economic order.

Basic Ways To Further Emphasize Reform

1. Reform of the Macroeconomic Control System Should Be Combined with the Retrenchment Policy

(1) The central government's macroeconomic regulation and control capability must be enhanced, and the present structure, in which financial resources, material resources, and foreign exchange are too decentralized, must be changed. This means that the current issue of diversified interests must be resolved, and that local governments and enterprises must be guided to accept

more responsibility along with emphasizing interests. (2) Financial reforms must be perfected. The economic control functions and powers of local governments should be gradually perfected, irrational local economic structures should be eliminated, and central finances should be suitably more centralized, which will restrict an important system factor in our money supply and structural imbalances, and ultimately be passed on to our tax system. (3) The bank management system should be reformed, the macroeconomic regulation and control functions of central banks should be enhanced, and a vertical leadership system should be put into effect for central banks. Special bank reform must be deepened, nonfinancial institution and bank trust investment companies must be reorganized, and a special banking system, that is under the centralized control of central banks and works according to a system of division of labor, must be established and perfected, in order to strengthen restraining forces for special banks. (4) Cost accounting and tax collection reforms must be carried out, expenditures for all costs must be strictly stipulated, tax categories and tax rates must be re-examined and approved, and a strong national tax collection system must be established, in order to prevent the present serious phenomena of "running away, falsifying tax returns, evading taxes, and complaining." (5) Prices should be gradually rationalized while being strictly controlled, and emphasis should be placed on resolving the issue of irrational price relations between primary products and manufactured goods. (6) A labor employment guarantee system should be vigorously established and reformed, and the regulatory role of the employment lever should be enhanced.

II. Microeconomic Reforms Favorable to Retrenchment and Restructuring Should Be Put Into Effect

(1) The enterprise contract management responsibility system should be perfected, and pilot projects in separating taxes from profits and putting a public shareholding system into effect for large enterprises should continue to be tried out, and then popularized after the commodity pricing system has been roughly rationalized. (2) A number of small enterprises that have long sustained losses and been poorly managed should be sold to ease the state's financial burden. (3) A positive foundation should be laid for putting the "Bankruptcy Law" into effect, in order to eliminate the abuses of enterprise soft budgetary limitations. (4) All state-owned enterprise assets should be better inventoried, and rational terms should be set for forming enterprise incorporations and groups, in order to better combine key production factors. (5) The "Enterprise Law" should continue in effect, the factory director responsibility system should be adhered to and perfected, and interference by noneconomic factors in economic activity should be decreased. It is worth noting that although the above steps are bound to involve property rights, property rights reform certainly does not necessitate private ownership. The primary purpose of reforming property rights is to clarify

them. Without clear and compensated transfer of property rights, not only will it be hard to effectively separate taxes from profits, but state-owned enterprises will be basically unable to either assume the sole responsibility for their profits and losses or actually improve their economic efficiency.

III. Restructuring Should Proceed in an Orderly Way, Step by Step

Our economic restructuring should generally take the path of restructuring product mix to speed up industrial restructuring. From the perspective of resolving immediate conflicts, although restructuring should focus on restructuring product mix to adapt to changes in market demand, without corresponding adjustments of interest rates, product prices, and tax burdens, enterprises will increase their production without raising their incomes, lose their inherent motivation to restructure, and have trouble using key production factors to make products that are in short supply. From the perspective of resolving deeper issues, although restructuring should focus on strategic industrial restructuring characterized by the rational disposition of key production factors, a lot of time and material and financial resources will have to be spent to effectively deal with relevant issues that must be resolved, such as the irrational disposition of resources. Thus, in addition to further adjusting and deepening the reform of interests rates, product prices, and tax burdens, it will also be necessary to eliminate economic blockades, keep interregional product mixes from becoming more alike, and strive to closely coordinate industrial trade restructuring with regional restructuring. Favorable regional and ownership terms must reflect the demands of both state industrial policy and economic efficiency, so as to allow management enterprises to decide to exist and grow both under the guidance of industrial policy and according to market competition. Moreover, the functions of government organizations must be gradually changed from the former management method of deciding on, examining, and approving projects and distributing funds and materials, to investigating, studying, and formulating industrial policy, as well as gathering, screening, and transmitting information. Thus, substantive political reform advances are necessary to make government economic departments truly change from material control and exclusive management to value control and service coordination.

IV. Economic Legislation and Supervision by the National People's Congress and Its Standing Committee Must Be Perfected

Improving economic legislation to establish standards of conduct for changing the government's management function, will not only be a permanent and secure strategy to develop a socialist planned commodity economy, but will also be a significant guarantee that the task of improving the economic environment and rectifying the economic order will be completed successfully in the coming years. Although the National People's Congress and its standing committee achieved great successes in their economic legislation and supervision work from 1979 to 1988,

certain deficiencies still exist in economic legislation, which is clearly out-of-date in the area of helping to restructure macroeconomic relations in particular. For instance, since the historic task of changing government functions was proposed for economic reform and development of a socialist planned commodity economy, relevant legislation has not kept pace in important areas, such as finance, budgets, planning, and banking. Moreover, ignoring the role of macroeconomic guidance of the national economic industrial structure in economic legislation has always hobbled the state's major industrial restructuring actions ever since the reforms began. Thus, paying close attention in the next few years to formulating relevant laws in areas, such as finance, budgets, planning, banking, and investment, and related industrial laws, can ensure both that the government will acquire an enhanced macroeconomic control capability backed up by the force of law, and also that the party and government's relevant policies will become clearer, the stability and continuity of government administration will be maintained, and the rational interests of local governments, departments, and enterprises will be safeguarded. Moreover, supervision over government economic activities by the National People's Congress and local people's congresses at all levels can be vigorously enhanced to truly ensure that the government "neither neglects its duties nor exceeds its powers," and that legal guarantees will be provided for and effective supervision will be exercised over the processes of improving the economic environment, rectifying the economic order, and deepening reform.

Problems in Readjustment of Industrial Structure

90D104341 Beijing JINGJI CANKAO in Chinese
14 Feb 90 p 4

[Article by Chen Xiang (7115 5046): "On the Constraints on Readjustment of the Industrial Structure and How To Deal With Them"]

[Text] Far into the future, readjustment of the industrial structure will remain one of China's major economic tasks. The industrial structure should be compatible with the country's economic development goals but is also constrained by the many conflicts in the economic system. Looking at China's economic situation, during rectification and improvement and even well into the future, the constraints will be there to act as a reversal force against the readjustment of the industrial structure and block the progress of such readjustment. How to deal with these conflicts is already among the most urgent issues to be resolved in the readjustment of the industrial structure. I would like to put . . . views here.

The Constraints on the Readjustment of the Industrial Structure

The constraint of overall control on the proper industrial structure:

Overall control is essential to rectification and improvement. By controlling the investment scope and credit scale,

we have alleviated the conflict of serious overall disequilibrium; the overheated economic growth is more or less under control, and the growth of the processing industry has slowed. But if we really want to resolve the conflict growing out of the incongruity among our basic industry, infrastructure, and processing industry, we must increase input into our basic industry and infrastructure. One of the main causes of the backward state of China's basic industry and infrastructure is the lack of input, and this conflict will only heighten as we try to maintain overall control. In particular, because the present pricing system is still chaotic, the lack of effective means to guide the extra-budgetary funds makes it impossible for the basic industry to absorb those funds. As a result, funds continue to flow toward the processing industry where the turnover is quick and added value is high. Compared to the processing industry, our basic industry and infrastructure will continue to be inadequate.

The constraint of the traditional dual economic structure on a refined industrial structure:

From the moment China stepped on the road to industrialization it has put the emphasis on the heavy processing and assembly industries; the labor-intensive type industries have not been fully developed. The agricultural sector continues to take up much of the resources. As a result, China's is a dual industrial structure marked by traditional agriculture with very little organic components at one end and heavy processing and assembly industries with many organic component at the other end. Looking at the trend of structural readjustment, refining of the industrial structure and massive transfer of the labor force should be completed at the same time. Optimization of the structure demands greater capital and technology intensity, which increases the organic components. But as more and more rural workers are moved to the nonagricultural sector, it reduces industry's organic components and makes it less technology- and capital-intensive. Thus, the massive transfer of workers and the sophistication of the heavy industry are two forces that move in opposite directions.

The constraint of an improperly structured tertiary industry on the readjustment of the industrial structure:

If we look at a well-developed country, the production of capital goods will grow until they account for about 70 percent of all industrial productions, at which point, the entire industrial structure will shift to the "tertiary industry" phase. The development of the tertiary industry is a natural and gradual process. It is determined primarily by how well-developed the production sector is. Specifically, the development of the tertiary industry requires the following conditions: (1) an increase in the labor productivity rate in the production sector; (2) an increase in demand for goods; (3) a rise in the living standard. It is my opinion that China's tertiary industry has been growing rapidly in recent year both as a result of the rapid increase in the production of goods and materials and as a reflection of the backward production sector, especially industries. Because industries are underdeveloped, urban workers are unable to find work, and many have turned to

the low-investment, low-risk business and service trades. As a result, China's tertiary industry is clearly consumption-oriented; the traditional sectors still play an important role, and trades in the circulation sector and expensive consumption sector tend to develop much faster than others. This improper structure causes over-consumption, which in turn stimulates the over-development of the processing industry, which is characteristically a high added-value industry, and this makes the scarcity of raw materials and energy even more scarce. In addition, there are too many links in the circulation sector; they restrict the normal development of this type of industry and exacerbate an already poor industrial structure.

The constraint of regionalized economic development on the proper allocation of key factors of production at the macroeconomic level:

In the wake of the restructuring of the economic system, the various departments' economic management power has diminished while the regional economic management functions are being augmented. Many different interest groups and investment groups have emerged. The national economy is becoming more and more regionalized, and the most obvious characteristic of this trend is the regionalization of the industrial structure. Specifically, the local governments have been firmly established as a first-level interest group, the traditional regional division of labor has changed, and many regions now can achieve comprehensive development on their own. But since the means to regulate and control the interest groups at the macroeconomic level have not been perfected and the price system is still chaotic, the regions often seek near-term profit as their goal, and as a result, the regional industrial structures are merging in the same direction. Well developed regions with the advanced technology, facility, and ability to develop in-depth processing and high-tech industries do not focus on upgrading traditional industries and building new ones; instead, they hang on to their old, primary processing industries. Meanwhile, ill-equipped and technologically backward regions want to get into industries with high added-value and run processing industries that are beyond their capability. The upshot is, the material-producing regions and the material-processing regions may have started from different points but they are all heading in the same direction. The growing similarity in the regional industrial structures and the readjustment of the overall industrial structure are mutually exclusive. The lack of regional differences does not give play to regional advantages and hampers the proper mix of key factors of production, and as a result, some regions are unable to develop those industries which they have an advantage in or industries that complement their regional development. It also exacerbates the imbalance between the infrastructure and the processing industry.

The restrictions of the old system on enterprises and the constraint of imperfect market mechanisms on the industrial organization:

Enterprises may have won significant right of self-determination after a decade of reform, enterprise

vitality may have been greatly enhanced, and enterprise horizontal integration and economic organization may have made great strides, but the external restraints that tie enterprises' hand are still here and the closed form of economic development persists. Under these conditions, enterprises' ability to bring forth new ideas and drive to develop on their own are greatly limited. The economic setup which makes enterprises a system unto themselves obstructs the development of lateral economic ties among enterprises as well as their specialization and division of labor and in turn makes their operation "large and comprehensive" or "small but still comprehensive." As a result, China's industrial organization is flawed in many ways. In particular, enterprise development lacks the concentration and decentralization that are based on specialization and division of labor; there is little economies of scale; enterprises are unable to bring forth new ideas on their own; their technologies are obsolete, and new enterprises using old technologies are seriously inflicted with "premature aging syndrome." The fact that the market mechanisms are imperfect and enterprises do not compete or merge under normal conditions to some degree also protects the improper industrial organization from any outside pressure to readjust the industrial organization structure.

Some Suggestions

1. Overall reduction should be firmly upheld as an important rectification and improvement measure, but we must readjust the investment and credit structures where necessary and increase the share of input into agriculture, energy, raw material, communications and other basic industries, so that their input not only will not decrease as a result of the overall reduction but will actually increase. This means we must make drastic cuts in input into the ordinary processing industry. Meanwhile, we should adopt a set of effective management measures and strengthen the management of extra-budgetary funds and steer those funds in the direction stipulated by the state's industrial policy. When conditions ripen, we should promptly readjust some of the product prices to promote structural readjustment.

2. We should take active steps to develop labor-intensive type industries, especially externally-oriented, labor-intensive type industries, and take part in international circulation. This not only can solve some of the problems of relocating the surplus rural labor force but also help accumulate funds for industrial development and help develop township enterprises under the correct guidance of state policies.

3. We should readjust the structure of the tertiary industry, encourage the development of a burgeoning high-tech tertiary industry, take active steps to promote education and science and technology, and encourage the tertiary industry to serve production. We should be resolute in rectifying the economic order in the circulation sector, eliminate some unnecessary companies in that sector, and enhance those services and trades which have a direct bearing on the people's livelihood.

4. We should integrate regional policies and the industrial policy organically. In other words, we should industrialize the regional policies and regionalize the industrial policy. On the one hand, when we determine the key points of a region's development and the developmental strategy, we should also stipulate that area's industrial structure and principle industries. For example, the coastal development strategy is a regional strategy, but in encouraging that region's development, we should emphasize the development of labor-intensive and high-tech industries and other leading industries that have "both ends abroad." On the other hand, different regions have different endowments, and we should break down the country's industrial development goals to suit regional conditions. While we implement a national industrial policy, we should promulgate regional industrial policies to give full play to localized superiority.

5. We should set up the necessary legal system in the industrial organization to guarantee enterprises' reasonable rights and privileges, discipline enterprise behavior, guarantee enterprises' normal competition and merger, achieve economies of scale, and guarantee enterprise creativity and vitality. Meanwhile, we should also set up a social security system. We should vigorously develop enterprise lateral economic ties and establish different types of enterprise combinations.

State Statistics Bureau Releases Economic Indexes

OW3103144890 Beijing XINHUA Domestic Service
in Chinese 0933 GMT 30 Mar 90

[Text] Beijing, 30 Mar (XINHUA)—The six major economic indexes of the national economy released today by the State Statistics Bureau indicate a slight drop in fixed assets investment, a fall in credit balance compared with the beginning of the year, the slowing of the pace of wage increases, and a continued drop in industry's economic efficiency from January to February.

Publicly owned units invested 7.4 billion yuan in fixed assets in January and February, a decrease of 300 million yuan from the same period last year. According to statistics from 29 provinces, municipalities, and autonomous regions, investment in 15 regions decreased compared with the same period last year. The rate of decrease in 12 regions was higher than the nation's average. The rate of decrease in Henan, Qinghai, Shaanxi, Jilin, Ningxia, Hebei, and Guangdong was over 30 percent. Investment in technological upgrading projects fell 22.5 percent. The relatively high rate is mainly due to high interest rates on loans for technological upgrading. Market uncertainty also affected enterprises' enthusiasm for technological upgrading.

Banks' credit balances declined to 1.234 billion yuan at the end of February, 7 billion less than at the beginning of the year. Industrial loans registered an increase of 5.18 billion yuan. Due to seasonal changes, industrial loans registered a decrease of 10.64 billion yuan. The total amount of wages for the nation's work force in January

and February was 41.9 billion yuan, a 3.5-billion yuan increase over the same period last year. The rate of increase was 9.2 percent, the lowest since 1984.

The major indication of the continuous fall of industry's economic efficiency was the decline in per capita labor productivity. In January and February, per capita labor productivity of publicly-owned industrial enterprises within the state budget was 2,716 yuan, a decrease of 64 yuan compared to the same period last year; the rate of decrease was 2.3 percent. The cost for comparable products keeps soaring. In January and February, publicly-owned industrial enterprises within the state budget paid 7.1 percent more for comparable products, compared to paying 12.2 percent more by the industrial enterprises for comparable products in the same period last year [as received]. Profits and taxes from sales were lower than in the same period last year. In the first two months, the percentage of profits and taxes from sales of publicly-owned industrial enterprises within the state budget was 14.16 percent, a drop of 3.08 percent from the same period last year.

PROVINCIAL

Sichuan's 1989 Economic, Social Development Detailed

90CED0107A Chengdu SICHUAN RIBAO in Chinese
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[Article: "Sichuan Provincial Bureau of Statistics Communique on National Economic and Social Development During 1989 (dated 27 February 1990)"]

[Text] Under the leadership of the party, and as a result of arduous efforts throughout the province from top to bottom, results began to show during 1989 both in improving the economic environment and restructuring the economic order, and in the deepening of reform. Social demand was brought under control; effective supply continued to increase; economic overheating declined markedly; a good agricultural harvest was brought in; the rise in prices slowed gradually; new advances were made in various social programs; and the entire national economy was developing in a good direction. Disturbances halted, and troubles subsided for the consolidation and development of a stable and unified political situation. Initial calculations show a gross national product 98.9 billion yuan¹ for the whole year, up 2.9 percent from 1988; national income was 86.6 billion up, up 2.6 percent; and the gross output value of industry and agriculture was 167.116 billion yuan (or 110.575 billion yuan when figured at constant 1980 prices), up 4.9 percent. The major problems in development of the national economy were: a gross social demand that was greater than gross social supply; a product makeup that did not meet changes in market demand; little commodity withdrawal of currency from circulation; a market sales slump; too speedy decline in industry, and too little work for a small number of

enterprises. There were both joys and sorrows in the economic situation, but the joys outweighed the sorrows.

1. Agriculture

During 1989, the idea of taking agriculture as the foundation saw further heightening in Sichuan Province. Better leadership of agriculture, increased investment in agriculture, sparing no effort in fighting disasters and providing disaster relief, steady perfection of policies, and promotion of techniques to increase yields produced a fine harvest. The gross output value of agriculture for the whole year was 53.306 billion yuan (or 30.871 billion yuan calculated in constant 1980 prices), up 3.6 percent from 1988. This included a 4.2 percent increase in the output value of farming, a 0.7 percent increase in the output value of forestry, a 3.6 percent increase in the output value of animal husbandry, a 10.9 percent increase in the output value of the fishing industry, and maintenance at the 1988 level of the output value of sideline occupations.

Among major agricultural products, outputs increased for grain, hemp, tobacco, tea, silkworm cocoons, and fruit. After faltering for several years in a row, grain production saw new breakthroughs, gross output exceeding the all-time 1984 high of 40,795,000 tons. As a result of a reduction in area sown and other factors, gross outputs declined for cotton, oil-bearing crops, and sugarcane.

Output of major farm crops was as follows:

Output of Major Farm Crops in 1989		
	1989	Percent Increase Over 1988
Grain	40,835,000 tons	5.3
Cotton	84.7 million tons	-3.4
Oil-bearing crops	1,408,400 tons	-3.4
Including: rapeseed	1,129,000 tons	-
Jute & ambari hemp	76,000 tons	18.9
Fine-cured tobacco	98,500 tons	14.0
Silkworm cocoons	132,200 tons	3.5
Tea	56,800 tons	0.9

A 5,420,000 mu area was afforested in 120.4 percent plan fulfillment. Output of main forest products included 573 tons of raw lacquer, up 5.7 percent from 1988, and 101,000 tons of tung oil seeds, down 25 percent.

In the livestock raising industry, hog production increased; the number of pasture animals steadily increased; and output of major livestock products such as poultry, eggs, and wool increased over 1988.

Output of main livestock products and the number of livestock were as follows:

Livestock Product Output and Number of Cattle in 1989

	1989	Percentage of 1988
Pork, beef and mutton output	3,836,000 tons	1.7
Cow milk	249,000	-0.4
Wool	3,000 tons	25.1
Number of porkers removed from inventory	58,398,000	2.6
Number of draft animals in inventory at yearend	10,577,000	1.5
Other: cows	9,901,000	0.7
Number of hogs in inventory at yearend	64,388,000	0.9
Number of sheep and goats in inventory at yearend	9,152,000	0.5

Fishing industry production saw sustained development, output of aquatic products for the whole year reaching 223,000 tons, up 10.1 percent from 1988.

Investment in agriculture increased. During 1989, the government spent a total of 633 million yuan in support of agriculture throughout the province. This was a 46.2 percent increase over 1988. Peasant investment of money, materials, and labor in agriculture also increased. By the end of the year, machine power totaling 12.1 billion watts was in use in agriculture throughout the province, up 3.8 percent. Large and medium size tractors numbered 18,000, down 10 percent; small hand tractors numbered 182,000, up 1.1 percent; trucks numbered 44,000, up 10 percent, and 2.74 billion watts of drainage and irrigation machinery was in use, up 0.4 percent. During the year, a total of 1,739,000 tons of chemical fertilizer (scalar quantity) was applied, up 16.1 percent, and rural villages used 3.94 billion kilowatt hours of electricity, up 12.6 percent. In the building of farmland water conservancy, the input of labor increased, and the number of large and small water conservancy projects and facilities put back in condition made 1990 a standout year for such work during the past 10 years. At the end of the year, the effectively irrigated area in the province reached 41.78 million mu, 345,000 mu more than in 1988.

The rural economy continued to grow. In 1989, rural social gross output value² was 87.97 billion, up 5.4 percent from 1988. This included a 7.4 percent increase in the output value of rural industry, the construction industry, the transportation industry, and business.

Township and town enterprises developed in the midst of readjustment and restructuring to realize a gross output for the year of 39.97 billion yuan, up 15.9 percent from 1988.

2. Industry

Faced with a severe capital shortage, market sales difficulties, and insufficient raw and processed materials during

1989, the province's industry adopted policies for steady reform of enterprises, and took firm grip on structural readjustments. Overly high development speed dropped markedly; effective supply of products increased; and industrial production expanded. Gross output value of industry for the year was 113.81 billion yuan (or 79.704 billion at constant 1980 prices), up 5.5 percent from 1988 (exclusive of a 4.2 percent increase in industries at the village level and below). Gross industrial output value increased 2.9 percent in industries under ownership of the whole people, 10.6 percent in collectively-owned industries, 35 percent in individually-owned industries in cities and the countryside, and 43.3 percent in Chinese and foreign joint venture industries.

Light industry developed relatively slowly, gross output value reaching 51.838 billion yuan, up 3.2 percent from 1988. Heavy industry maintained a certain speed of development, its gross output value reaching 61.972 billion yuan, up 7.6 percent. Heartening changes occurred in the industrial structure, particularly in the product mix. The speed of increase in extraction industries and raw and processed materials industries exceeded the average level of increase in the province's industry. Energy production was fairly good, and production of major agricultural means of production, major raw and processed materials, and numerous necessities in the daily life of the people increased in varying degrees. Output of color television sets, electric refrigerators, timber, cement, machine tools, and motor vehicles declined.

Output of major industrial products was as follows:

Output of Major Industrial Products

	1989	Percentage Increase Over 1988
Chemical fiber	30,700 tons	10.9
Cotton yarn	157,700 tons	-6.7
Cotton cloth	852 million meters	-4.3
Silk	13,700 Tons	1.7
Silk fabric	105.17 million meters	8.3
Machine-made paper and paperboard	789,400 tons	2.8
Sugar	141,900 tons	-7.9
Crude salt	2,226,400 tons	10.8
Cigarettes	1,803,100 cases	7.4
Television sets	1,616,800	10.6
Including: color televisions	749,500	-11.8
Household washing machines	570,400	-10.1
Household refrigerators	365,300	-34.7
Gross energy output (converted to standard coal)	64,632,800 tons	6.0
Raw coal	70,530,500 tons	5.2

Output of Major Industrial Products (Continued)

Natural gas	6,457 billion cubic meters	7.0
Electricity output	32,469 billion kilowatt hours	9.1
Including: hydropower	14,68 billion kilowatt hours	11.2
Steel	4,696,300 tons	4.6
Processed steel (finished steel products)	3,508,800 tons	4.2
Cement	13,840,100 tons	-1.5
Timber	3,074,200 cubic meters	-14.6
Sulfuric acid	1,055,200 tons	9.9
Soda Ash	263,700	18.8
Caustic soda	228,300 tons	10.5
Chemical fertilizer (scalar quantity)	1,682,800 tons	5.4
Including: nitrogenous fertilizer	1,220,600 tons	6.0
Chemical pesticides (raw pesticide)	6,600 tons	15.5
Agricultural plastic sheeting	18,400 tons	6.3
Electric power generators	2,427,200 kilowatts	0.9
Metal cutting machines	7,323 units	-16.9
Motor vehicles	27,000 units	-2.8
Small tractors	16,200 units	-16.4

Returns in the industrial economy were rather good overall, but there were both joys and sorrows. During 1989, the labor productivity rate for all personnel in independently accounting industrial enterprises under ownership of the whole people was 14,678 million yuan, up from 1988. A total of 1,500 new products of provincial grade and above were developed. More than 91 percent of products steadily improved in quality. Industrial units consumed 6.03 tons of energy (standard coal) and saved 471,000 tons of energy (standard coal) per 10,000 yuan of output value. Local state-owned industrial enterprises within budget realized profits of 5.934 billion yuan, up 6.4 percent from 1988, but comparable product costs rose 18.7 percent; failing industries incurred losses of 328 million yuan, up 45.1 percent; the time required for the circulation of quota circulating funds increased from 127 to 138 days; and the profit and tax rate on sales earnings, as well as the profit and tax rate on funds also declined 1.2 and 2.7 percentage points respectively.

3. Fixed Assets Investment and the Construction Industry

In 1989, the province curtailed the scale of investment, readjusted the structure of investment, and focused on key construction, achieving success in these efforts. Inflation of investment in fixed assets began to be brought under control. A total of 20.062 billion yuan was

invested in fixed assets throughout the province and throughout society. This was 1.157 billion yuan, or 5.5 percent, less than in 1988. This included a local investment of 13.554 billion yuan for a 2.095 billion yuan, or 13.4 percent decrease. Construction of 767 project was halted or slowed for a 1.553 billion yuan cutback in investment. The amount of investment made in fixed assets throughout the province and throughout society included an investment of 14.243 billion yuan in units under ownership of the whole people, a 430 million yuan or 2.9 percent reduction. Cuts were also made in city and country collective and individual investment.

Capital construction projects of units under ownership of the whole people decreased, but the amount of investment continued to rise. In 1989, there were 6,035 capital construction projects in the whole province, 539 fewer than in 1988. A total of 8.102 billion yuan was invested in them, up 884 million yuan in a 12.2 percent increase. This included the investment of 3.826 billion yuan in local projects, maintaining the level of 1988. The investment structure continued to be readjusted. Investment in the energy industry sector was 3.584 billion yuan in a 56.7 percent increase over 1988, the percentage of investment in energy rising from 29.5 percent in 1988 to 44.2 percent. A total of 1.103 billion yuan was invested in the raw and processed industry sector, up 2.4 percent, but the percentage of investment in this sector declined from 14.9 to 13.5 percent. Investment in the transportation, posts, and telecommunications sector totaled 688 million, up 17.2 percent, the percentage of investment in this sector rising from 5.9 to 8.5 percent. Investment in the scientific research and in the culture, education, and health sectors increased by 128.2 and 26 percent respectively. Investment in urban construction also increased. As part of the investment in capital construction, investment in construction for productive purposes totaled 5.619 billion yuan, up 20.9 percent from 1988, the percentage of investment for this purpose rising from 64.4 percent in 1988 to 69.4 percent. Investment in construction of a non-productive nature amounted to 2.482 billion yuan, down 3.4 percent, the percentage of investment for this purpose declining from 35.6 to 30.6 percent. Large and medium size projects for construction under plan, and provincial government-designated key construction projects numbered 68 requiring an investment of 3,939 billion yuan or 99.1 percent of plan investment. The Baima Electric Power Plant expansion project at Neijiang, and the Lian-jian and Pangang No 4 blast furnace project at the Honghe Chemical Industry Main Plant at Zigong went into production according to plan.

Major additions to production capacity, and returns from capital construction throughout the province included the following: the mining of 1.67 million tons of coal, 43 million cubic meters of natural gas, 460,000 kilowatts of power generation installed capacity, smelting of 830,000 tons of iron, the cleaning of 1.8 million tons of coal, 135,000 tons of soda ash, the manufacture of 1,850 trucks, the building of 211 kilometers of new highways, the renovation of 79 kilometers of highways, 270,000 seats for student of all kinds, and 2,0004 hospital beds.

Reduction of investment in enterprise updating and technical transformation. In 1989, 5.048 billion yuan was

invested in the updating and technical transformation of units under ownership of the whole people, an 18.4 percent decline from 1988. Of 4,100 projects under construction, 2,173 were completed and went into production, their newly added fixed assets having a value of 3.639 billion yuan. As part of the investment in updating and technical transformation, 380 million yuan was used for energy conservation, the percentage of investment for this purpose rising from 5.3 percent in 1988 to 7.5 percent. A total of 2.986 billion yuan was used to increase product varieties, to improve product quality, and to increase product production, the percentage used for this purpose falling from 62.7 to 59.2 percent.

Reform of the construction industry continued. During 1989, 7,537 projects of construction enterprises under ownership of the whole people instituted various kinds of economic contract responsibility systems covering 91.9 percent of all construction projects. The construction area of 11,651,000 square meters amounted to 96 percent of the entire construction area. The gross output value of the construction industry was 4.851 billion yuan, maintaining the level of 1988. The labor productivity rate for all personnel was 11,605 yuan, up 7.3 percent.

4. Transportation, Posts and Telecommunications Industries

The province's transportation and communications sector developed through the tapping of internal potential. Transportation volume³ completed by all modes of transportation was as follows:

Transportation Volume of All Modes of Transportation

	1989	Percentage Increase Over 1988
Freight volume		
Railroads	47,379,000,000 ton kilometers	0.3
Highways	35,039,000,000 ton kilometers	-0.4
Water	2,371,000,000 ton kilometers	9.5
Air	9,924,000,000 ton kilometers	0.5
Passenger volume		
Railroads	55 million ton kilometers	22.2
Highways	34,917,000,000 man kilometers	-4.7
Water	12,994,000,000 man kilometers	-8.6
Air	17,421,000,000 man kilometers	0.9
	1,995,000,000 man kilometers	13.4

The decline in passenger volume was attributable to various objective reasons such as a readjustment of ticket prices.

The province made active use of the advantages that Chang Jiang water shipments provide, local transportation units shipping 2.98 million tons of freight along the river, 16.4 percent more than in 1988. Their turnover volume of 4.636 billion ton kilometers was a 17 percent increase over 1988.

Increase in economic returns from transportation sector. Railroad freight-hauling locomotives averaged an output

of 547,000 ton kilometers per day, and freight trains hauled an average total weight of 1,888 tons in a 4.2 and 2.8 percent respective increase over 1988. Railroad freight transportation revenues were up 10.8 percent over 1988. The railroad transportation productivity rate for all personnel remained substantially at the 1988 level. Local state-owned transportation businesses' profits and operating taxes increased 51.3 and 54.3 percent respectively. Both the number of failing enterprises and the amount of their losses declined by more than 10 percent. Motor vehicle transportation unit costs rose only 2.5 percent.

The posts and telecommunications industry continued to develop. In 1989, the posts and telecommunications industry had a 300 million yuan business volume, up 26 percent from 1988. As of the end of the year, 180,000 households inside city limits had telephones in a 19 percent increase. Data from eight cities show the opening of communications networks, and service opened at the Jiangbei Airport in Chongqing.

5. Domestic Commerce and Material Supply

During 1989, the province diligently restructured its commodity circulation system, devoting efforts to market supply for improved market stability. Social commodity sales volume for the whole year was 52.731 billion yuan, up 10.4 percent from 1988. After deducting for price rises, sales volume declined 6.7 percent. As part of the total social commodity sales volume, consumer goods retail sales accounted for 45.568 billion yuan, up 9.2 percent; and retail sales of the agricultural means of production amounted to 7.163 billion yuan, up 19.2 percent. Social group purchasing power stood at 3.733 billion yuan, down 3.3 percent. After deducting for price rises, there was an actual 18.2 percent decline.

The makeup of all economic types of business continued to change. The year's retail sales for the economy under ownership of the whole people amounted to 52.731 billion yuan, which was 10.4 percent more than in 1988. After deducting for price rises, sales decreased 6.7 percent. Among the total social commodity retail sales volume, retail sales of consumer goods amounted to 45.568 billion yuan, up 9.2 percent; and agricultural means of production retail sales amounted to 7.163 billion yuan, up 19.2 percent. Social group purchasing power stood at 3.733 billion yuan, down 3.3 percent, and actually down 18.2 percent after deducting for price factors.

The structure of various economic type businesses continued to change. Retail sales volume for the year in the economy under ownership of the whole people amounted to 17.284 billion yuan, up 6.4 percent from 1988, but falling from 34 to 32.8 percent as a percentage of total social commodity retail sales volume. Supply and marketing cooperative retail sales volume amounted to 9.447 billion yuan in a 14.4 percent increase, its percentage of total retail sales volume rising from 17.3 to 17.9 percent. Retail sales in other businesses under

collective ownership stood at 9.457 billion yuan, down one percent, their percentage falling from 20 to 17.9 percent. Retail sales in the individual economy, the jointly owned economy, and by peasants to nonagricultural residents continued to increase.

Retail sales of food, clothing, and articles used in daily life increased, sales of food increasing 17.8 percent, of clothing 0.6 percent, and of articles used in daily life 1.8 percent. After deducting for price rises, food sales maintained the 1988 level, and sales of clothing and articles used in daily life declined by more than 10 percent.

Collective trade was brisk. Volume of transactions for the year in city and rural country fair markets was 14.535 billion yuan for a 14.6 percent increase over 1988, and exceeding the average rate of increase in consumer goods retail sales by 3.4 percentage points.

Rising prices began to decline, and the masses anxiety about rising prices moderated. In 1989, the overall retail price level rose 18.3 percent over 1988. About two-thirds of this was attributable to the "persistent" effect of continuous rises in commodity prices during 1988. A look at separate categories of commodities shows an 18.6 percent rise in retail prices of consumer goods, and a 16.2 percent rise in prices of the agricultural means of production. The degree of price rises for various categories of consumer goods was as follows: Food, 17.4 percent; clothing, 18.7 percent, articles used in daily life, 16.6 percent; articles used for cultural and entertainment purposes, 12.2 percent; books, newspapers, and magazines, 72.7 percent; medicine and medical supplies, 19.9 percent; construction materials, 21.6 percent; and fuel, 19.8 percent.

Retail sales of the main means of production went from brisk to flat. The total value of all means of production retailed through the materials system amounted to 8.875 billion yuan for the year, up 0.5 percent from 1988, and far lower than the rate of increase in 1988. Processed steel sales stood at 1,982,000 tons, down 12.3 percent; cement sales were 1,348,000 tons, down 21.2 percent; and timber sales were 207,000 cubic meters, down 20.4 percent.

6. Foreign Economic Trade and Tourism

During 1989, the province actively pioneered the opening of foreign trade channels, and foreign trade continued to expand. Foreign trade import and export volume for the year amounted to \$1.283 billion, up 13 percent from 1988. This included exports totaling \$949 million, up 10 percent, and imports totaling \$334 million, up 22.6 percent.

Foreign capital totaling \$337 million was actually used during the year. This was 49 percent increase over 1988. Newly signed agreements for the foreign contracting of projects and labor cooperation had a value of \$166 million, up 51 percent from 1988. Volume of business completed was \$108 million, up 24 percent.

Interprovince joint cooperation continued to increase, the province reaching agreement with other provinces on 1,200 economic and technical projects for the year. Cooperatively imported and exported materials totaled 1.1 billion yuan in value and 230 million yuan of capital was imported into the province.

During 1989, a slide occurred in the province's tourism as a result of disturbances. A total of 101,300 foreign visitors were received, and foreign exchange revenue from tourism amounted to 900,000 yuan (the foreign exchange equivalent of renminbi) for a respective decline from 1988 of 40.7 and 11 percent. Twenty-six scenic tourist areas of the province received 15.06 million tourists, down 17 percent. In September, the number of people received began to pick up.

7. Banking and Insurance Industries

During 1989, banks at all levels throughout the province enforced a currency and credit policy of "controlling total volume, readjusting the structure, support for key projects, general curtailment, and timely readjustments." Savings deposits increased substantially, and loans increased according to plan, providing greater support for development of the province's economy. By year's end bank savings accounts of all kinds increased 7.44 billion yuan over the beginning up the year in a 20 percent increase. Loans of all kinds increased 9.243 billion yuan from the beginning of the year in a 17.2 percent rise reaching 99.4 percent of the credit limit. This included a 7.74 billion yuan increase in circulating funds loans, up 2.88 billion yuan from 1988, and a 210 million yuan increase in loans for fixed assets in a 140 million yuan increase from 1988. Among circulating funds loans, loans to industry increased 3.523 billion yuan in a 21.5 percent increase, mostly for use in production in state-owned industrial enterprises; and circulating funds loans to businesses increased 3.933 billion yuan, up 19 percent, mostly for use in supporting grain procurement, foreign trade purchases, and state-owned business dealings. Cash revenues for the year increased 13.7 percent over 1988, and cash outlays increased 8.9 percent, receipts offsetting expenditures, and net investment being greatly reduced from 1988.

The insurance industry continued to develop. In 1989, 21.92 million people in the province had life insurance, up 16.2 percent from 1988. Households carrying property insurance numbered 12,579,000, up 7.2 percent.

8. Science and Technology

During 1989, the role of the province's science and technology in economic and social development was fairly marked. Natural science and technology personnel scored 781 major scientific and technical achievements during the year, winning national science and technology progress awards for 38 achievements, and winning provincial progress awards for 284 achievements. Among the achievements for which prizes were awarded, 15 percent met or approached international standards, and

33 percent met advanced national standards. Research, development and construction of the Longyang Gorge 320 megawatt large water turbogenerator unit, for which a special award was issued, met world advanced standards for the early 1980's. Major key scientific and technical projects, primarily in industry and agriculture, were smoothly implemented, 121 projects covering 280 specialized topics being implemented throughout the year. A total of 130 applied basic research projects having rather fine prospects for application and a fairly high academic level were approved. Six "torch plan" projects were implemented for a strengthening of high technology developmental work. "Spark Plan" projects implemented numbered 57. These created an output value of 2.4 billion yuan for marked economic returns. In the field of provincial level soft sciences research, research on 276 projects was completed since 1983, 35 of them in 1989.

The mass science and technology campaign expanded, and the technology market continued brisk. During 1989, 13,142 academic exchange activities of various kinds were held in which 1,036,900 people took part, exchanging 37,700 academic treatises. Associations for the popularization of science were set up in 70.7 percent of all townships (or towns). Eighteen thousand technical contracts worth 894 million yuan were concluded during the year.

More was done to develop patents. During the year, 1,462 patents were applied for, and 778 patents were issued, a 33.2 percent increase over 1988.

The scientific and technical corps steadily grew in strength. In 1989, local jurisdictions throughout the province had 1.42 million technical personnel in various specialized fields. This was 14.5 percent more than in 1988. Independent research and development institutions in government departments at the county level and above numbered 206, and there were 553 large and medium size enterprise research and development organizations working on 4,323 development projects. A total of 150,000 people were engaged in research and development.

9. Education and Culture

Readjustment of the structure of institutions of higher education continued. During 1989, 1,685 graduate students were enrolled bringing the number of graduate students to 6,113. Undergraduate and students pursuing professional studies in ordinary institutions of higher education numbered 39,400. There were 140,400 students in school, and 39,400 graduates. A total of 26,800 students were enrolled as undergraduates or in professional fields in adult institutions of higher education. Students in school numbered 79,100, and there were 21,600 graduates. During the year a total of 240,000 self-study personnel in the province sat for examinations, 6,655 of them reaching a professional level.

Secondary school education developed further. Students in various kinds of professional and technical schools throughout the province numbered 134,200, or 83.6

percent of students in ordinary senior middle schools. Students in adult secondary vocational schools numbered 119,000, graduate students numbered 29,500, and adult technical trainees numbered 894,900.

Strengthening of basic education. There were 3,41,380 pupils in junior middle school, and 10,106,100 pupils in primary school in the province. The in-school rate for school-aged children increased from 95.4 percent in 1988 to 95.9 percent. The primary school pupil drop out rate fell from 3.7 to 2.7 percent, and 13 counties made primary school education universal. Achievements were made in society-operated schools, the number of private secondary and primary schools reaching 353 with 27,500 students. There were 1,230,300 tots in kindergarten, and education for mentally retarded and physically deformed children also increased.

Cultural undertakings made new contributions in the building of socialist spiritual civilization. During 1989, nine feature films were made, and 201 new (full length) films of various kinds were issued. The number of radio broadcast dramas and television dramas recorded increased substantially over 1988. There were 13,663 filming units, 158 troupes of artists and musicians, 142 public libraries, 208 cultural palaces, 39 museums, and 277 archives in the province. The province has 13 radio broadcasting stations, 18 broadcast transmitters and relay stations, 20 television stations, and 2,222 television transmitters and relay stations. This includes 22 transmitters of 1,000 watts or more. The television coverage rate increased from 62.7 percent of the population in 1988 to 70 percent. Local newspapers published 1.074 billion copies, 53.93 million copies of magazines of various kinds were published, and 4,117 different maps were published. Control over the culture market was intensified.

10. Health and Physical Education

Medical treatment has gradually improved. As of the end of 1989, the province had 211,300 beds, 2.6 percent more than in 1988; and 304,800 medical technicians, a 1.6 percent increase. This included 152,300 medical doctors, up 10.9 percent, and 60,000 nurses, up 14.1 percent. The overall incidence of all major infectious and chronic diseases dropped, and good results were obtained in the treatment of local diseases such as schistosomiasis, malaria, and dijiabing [0966 3948 4016].

Burgeoning of physical education. In 1989, province athletes won 11 world championships, an all-time achievement. They also won 53 national championships. A total of 5,595 athletic meets at the county level or above were held during the year in which 128 million people took part. A total of 4.96 million people achieved "international physical education physical training standards, up 15.9 percent from 1988.

11. People's Standard of Living

Cash income of city and countryside residents increased. Exclusive of materials issued by units, real income remained basically at the 1988 level. A random sampling of city and

town residents in 2,100 households in 20 cities and counties showed city and town residents as having 1,226.24 yuan per capita for living expenses. This was 189.55 yuan more than in 1988 for an 18.3 percent increase. After deducting for increases in prices of items used in the daily life of staff members and workers, the actual increase was 0.4 percent. Per capita living expense payments amounted to 1,183.55 yuan per year, up 97.31 yuan in a nine percent increase. This included a 17 percent increase in spending for food, and a respective 5.6 and 3.1 percent decline in spending for clothing and daily necessities. According to a random survey of 3,500 rural households in 55 counties, peasant net per capita income was 494.07 yuan, 45.22 yuan more than in 1988 for a 10.1 percent rise. After deducting for prices rises, peasant per capita income actually declined 1.9 percent. Per capita living expenses were 473.59 yuan, up 11.1 percent. Life remains difficult for some low income households in cities and the countryside.

Labor system reform continued to deepen. In 1989, 183,100 city and town personnel awaiting employment were placed. At the end of the year, staff members and workers in the province totaled 9,202,800, up 76,200 from 1988. The total wage bill for staff members and workers for the year was 16,246 billion yuan, up 2,069 billion yuan from 1988 in a 14.6 percent increase. At the end of the year, 529,200 staff members and workers in units under ownership of the whole people practiced a contracting system. This was 62,000 more than in 1988. City and town individual workers numbered 429,000, 21,000 fewer than at the end of 1988.

City and countryside residents' savings increased. As of the end of 1989, residents' savings deposits showed a surplus balance of 26,537 billion yuan, a 7,006 billion yuan or 35.9 percent increase over the end of 1988.

Living conditions of city and countryside residents continued to improve. In 1989, 10.33 million square meters of new housing were built in cities and towns, and more than 40 million square meters of new housing was built in rural areas.

Social welfare programs developed further. In 1989, townships and towns throughout the province set up 458 social insurance network outlet points. Cities already established 3,941 social surface network outlet points. There were 78 social welfare units taking care of 38,500 people. Rural collectives provided for 260,300 people enjoying the five guarantees (childless and infirm old persons who are guaranteed food, clothing, medical care, housing, and burial expenses). Civil administration units found jobs for 18,600 physically handicapped people. The province established 2,691 social insurance funds having 35.96 million yuan in capital.

12. Nationality Areas Economy and Culture

During 1989, Sichuan diligently implemented the "People's Republic of China Autonomous Nationalities Areas Code," and the spirit of the All-China Mass Rally to Commend Progress in the Unity of Nationalities for further development of the economic, cultural, and social endeavors of autonomous nationalities areas.

Garze and Aha counties, Liangshan Yi Autonomous Prefecture, Qianjiang Prefecture, and both Mabian and Ebian Autonomous County industries and agriculture had an output value of 7.092 billion yuan (or 4.276 billion yuan figured at constant 1980 prices), up 2.6 percent from 1988.

Farming and animal husbandry production showed all around development. The gross output value of agriculture for the entire year was 3.8 billion yuan, up 3.1 percent from 1988. Grain production showed sustained increase, gross output amounting to 2,732,600 tons, up 5.3 percent. Cash crops showed an all around output increase, sugarcane production stood at 418,400 tons, up 10.3 percent; flue-cured tobacco output was 42,900 tons, up 12.3 percent; oil-bearing crop output was 45,000 tons, up 11.7 percent; and tea output was 2,872 tons, up 5.7 percent. Both the number of livestock raised and the amount of livestock products continued to increase. Number of draft animals in inventory at the end of the year was 6,046,000, up 1.5 percent; the number of hogs in inventory at year's end was 4,974,900, up 2.1 percent; and the number of sheep and goats in inventory at the end of the year was 6,756,000, up 1.2 percent. Pork, beef, and mutton output totaled 233,900 tons, up 4.6 percent. Milk output was 166,300 tons for a 1.9 percent increase; and a wood output of 2,774 tons was a 6.8 percent increase.

Development of industrial production slowed. Gross industrial output value for the whole year was 3,292 billion yuan for a two percent increase over 1988, but 15.3 percentage points lower than the degree of increase in 1988.

The total wage bill for the year for staff members and workers in units under ownership of the whole people, and in collectively owned units was 1,027 billion, up 14.5 percent from 1988. The average annual wage of staff members and workers was 1,912 yuan, up 13.9 percent. Per capita net income of peasants and herdsmen continued to rise. Social commodity retail sales totaled 2,786 billion yuan in a 5.3 percent increase. The year-end savings surplus balance for city and countryside residents was 1,299 billion yuan, a 23.1 percent increase.

At the end of the year, autonomous nationalities areas had 23,100 health technicians, and 17,350 hospital beds. Of the students in schools of various kinds, 4,177 were in institutions of higher education, a somewhat smaller number than in 1988; 217,000 were in middle school; and 12,290 were in secondary vocational schools, an increase over 1988 in all cases. Primary school pupils numbered 766,100, a decline from 1988.

13. Population

A random sampling showed a birthrate of 19.09 per 1,000 in 1989, a 7.32 per 1,000 death rate, and an 11.77 per 1,000 natural rate of increase. The province is now facing a population child-bearing peak, so the task of controlling population increase will be extraordinarily daunting.

Footnotes

1. Gross national product means the sum of the increase in value of the materials production sector and the non-materials production sector. It does not include intermediately consumed products and the value of labor.

2. Rural social gross output value includes total agricultural output value as well as the gross output value of rural collectives, and of individual industry, the construction industry, the transportation industry, and business.

3. The volume of transportation means the freight and passenger turnover volume handled by the transportation sector.

All of the data in this communique are preliminary statistics for 1989. All data for gross national product, national income, and gross output value given in the communique are figured at current year prices, except where noted, and speed of increase over 1988 is figured in terms of comparable prices.

Output of Energy, Raw Materials Increases in Sichuan

HK1804064890 Chengdu Sichuan Provincial Service
(in Mandarin 2300 GMT 13 Apr 90)

[Text] Sichuan's production of energy, raw materials, and agriculture-oriented industrial products witnessed sustained growth in March, laying a solid foundation for the future development of Sichuan's industry and agriculture.

Sichuan's March production of raw coal, electricity, and natural gas increased six percent, eight percent, and seven percent respectively over the same period last year.

Sichuan's chemical fertilizer production in March increased 7.5 percent over the same period last year.

Sichuan also witnessed a gradual recovery of market strength. The sales volumes of household electric appliances and some other products also showed sizable increases. The sales volumes of color television sets and of edible sugar increased 53 percent and nine percent respectively over the same period last year.

FINANCE, BANKING

Drawbacks Seen in Strong Savings Deposits

90CE0039A Beijing JINRONG SHIBAO in Chinese.
8 Mar 90 p 2

[Article by Yang Jidong (2799 4549 2639): "Strong Savings—Not a Sign Permitting Optimism"]

[Text] The withdrawal of credit from circulation, with savings as the main sign, has always been the focus of China's credit and currency policy. However, under the structure of the current market slump, the various signals fed back to the people by the especially strong savings do not permit optimism.

First feedback signal: the appearance of strong savings is not equivalent to an increase in commodities withdrawn from circulation, and the tight supply of funds has not yet been alleviated.

Practice proves that a vigorous expansion of credit withdrawn from circulation has a positive effect on mitigating the contradiction between the supply and the demand of funds and in checking, within a certain period of time, inflation. However, in the recent period, the tendency to put excessive stress on the withdrawal of credit from circulation has increased. As of November 1989, the savings deposits of all the people had reached 500 billion yuan, equal to the total commodity retail sales in China over the previous seven months. We know that the withdrawal of credit from circulation and the withdrawal of commodities from circulation both entail the withdrawal of banknotes from circulation, but only the withdrawal of commodities from circulation is truly a withdrawal of currency from circulation. This is because what the withdrawal of commodities from circulation reflects is the actual realization of society's buying power; and the withdrawal of credit from circulation is the storing up of buying power. This buying power that has been deferred from realization will sooner or later pour into the markets. Because the total amount of currency if a fixed quantity, and it is impossible for the withdrawal of credit from circulation to replace the withdrawal of commodities from circulation, another aspect of the expansion of the withdrawal of credit from circulation is a reduction in the amount of commodities withdrawn from circulation. Therefore, the insufficiency of commodities withdrawn from circulation, under the structure of the market slump, is directly manifested in an actual drop in the amount of funds that society can use.

Second feedback signal: the essence of the strong savings to a certain degree is to curb the final consumption of what is produced and the rational circulation of society's funds

Against the big background of the market slump, it is not hard for us to see the following connection: market slump—drop in the total amount of commodity retail sales—reduction in the amount of commodities withdrawn from circulation—increase in the amount of credit withdrawn from circulation (manifested in strong savings)—rise in reserves (meanings reserves of industrial finished products and commodities)—sedimentation of a large amount of funds—drop in the amount of funds that society can use. From this it is not hard to see that the strength of savings deposits has the feedback effect of reducing the amount of commodities withdrawn from circulation by depending on market sales. Because of the deferral of the final consumption of products, and the large amount of funds sedimentation in commodity reserves or in enterprise product reserves that are unable to circulate, it is difficult for all of society's funds to circulate rationally.

Third feedback signal: the effect of the strong savings is to intensify the contradiction in society between supply and demand.

What we now face is a structure in which the market slump coexists with a situation in which total demand is greater than total supply. The expansion of the amount of credit withdrawn from circulation in exchange for exorbitant prices will certainly intensify this contradiction: on the one hand, the withdrawal of credit from circulation heightens the tendency toward national savings and weakens the tendency toward national consumption, causing the originally slumping market to slump even more and the reserves to escalate day by day; on the other hand, the expansion of the amount of credit withdrawn from circulation in essence stores up actual buying power for the next period. If on the 500 billion yuan in reserve for China as a whole, interest is paid each year, the increase in consumer demand will be as high as 70 billion yuan. Without a doubt this will worsen for the next period the contradiction in which total demand is greater than total supply, causing an enlargement of the crisis with inflation coming back and funds shortages occurring once again.

Fourth feedback signal: behind the strong savings are costs and expenditures that are really hard to meet.

The impression on people of being freed from "labor pains" after the war of attrition in which for a time neither blood nor money was spared to expand sources of savings, is still fresh in the memory. Speaking theoretically, to exchange exorbitant prices for national savings, there must be this premise, namely, after the money saved is invested, within a certain period (usually three years), it can gain more yield, causing large growth in society's total supply in this period, thus after the enlargement the deferred growth in total demand will digest the growth in total supply. It is quite obvious that China does not yet possess this precondition. Therefore, labor productivity cannot be greatly raised, and the total supply, within this period, cannot grow. The expansion of the amount of credit withdrawn from circulation by the exchange of high prices in essence expands the deferred total demand and acts in the next stage as an additional deferral after the disastrous effect of the enlargement of inflation.

Fifth feedback signal: the protracted strength of savings is covering up the essence of the supply-demand relationship under the idea of the tendency toward price stabilization.

It is understandable that, through a period of improvement and rectification, consumption and investment demand have been curbed, prices are falling daily after rising, the nation's retail sales index has already fallen from 27 percent at the beginning of 1989 to about 10 percent at present, and initial results have been seen in the policy of stabilizing the currency. However, it should be seen that our market is still a seller's market in which supply is smaller than demand. The tendency for prices to stabilize is not the result of an improvement in the supply-demand relationship, but is a temporary phenomenon caused by the large amount of subsidies in the state's finances (in 1989 the outlay for all types of

financial subsidies was about 100 billion yuan, amounting to 34 percent of that year's financial revenue), administrative controls, as well as the banks' tendency to maintain value by turning savings into consumption, and it lacks a market foundation. This protraction of strong savings does not mean that the relationship in society between supply and demand has improved in essence. Behind the tendency for prices to stabilize is hidden a new credit crisis.

Sixth feedback signal: the signs of strong savings induce an expansion of the scale of credit.

The expanded savings deposits, without a doubt, to a certain degree increases the sources of credit funds. However, there is a one-sided understanding of the theory that deposits determine loans, namely, "the more deposits there are, the more loans there can be." This theory runs through the entire credit policy. However, to get more scope for credit funds, local governments and banks at all levels spare neither blood nor money to draw in savings; and, even when formulating a given year's credit funds plan, arbitrarily enlarge the "funds plate," putting into the savings deposits plan a funds gap that could or already has appeared, in the hope of being able, through the rise in savings deposits, to get the credit funds scope they need. Therefore, under the shield of the signs of savings strength, the scope of credit funds again expands as the production funds get tighter day by day.

Consequently, against the general background of the current market slump, one cannot be blindly optimistic about the savings strength. We should at appropriate times readjust the credit and currency policy, correctly guide people's consumption, further invigorate the market for the final consumption of products, promote the withdrawal of commodities from circulation, invigorate commerce with markets, and lead industry with commerce, thereby overcoming the market slump—time waits for no man!

Pros, Cons, Effects of Pretax Loan Repayment Discussed

900H0349A Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese No 1, 3 Jan 90 pp 27-31, 48

[Article by Wang Zhengang (3769 2973 4854): "On the Pros and Cons of 'Pretax Loan Repayment' and Its Effect on the Adjustment of the Industrial Structure"]

[Text] The effects of a tax investment are an important aspect of the effects of taxation. By granting special investment-oriented tax privileges, funds can be guided in such a way as to change the direction of economic development. When the investors plan their investments, they must consider how taxes will affect their investment return and whether their investments will generate the return they expect. These will affect their investment decisions. The state can effectively guide and control the fund input and the direction of economic

development via the effects of taxation to fulfill its economic intervention goals.

I

Prior to 1984, China's state-run enterprises' investment funds were directly allocated by the Ministry of Finance, and taxation had little direct effect on investments. Since the second step of "substitution of taxes for profit delivery" took effect in 1984, enterprises have been separated from public finance, and instead of delivering their profits to the higher authorities and letting the state monopolize purchase and sales, enterprises have become commodity managers and producers, free to make business decisions and take care of their own profits and losses and free to control the direction of enterprise operation and scale of development. The state no longer directly allocates investment funds (except for new enterprises and new, large-scale projects,) and enterprises must raise funds to fulfill their development goals. They can use their own funds, or they can borrow money from the banks for investment purposes. In order to encourage and support reasonable enterprise development and solve some of enterprises' investment fund problems, the state has agreed to let them pay their debts out of the additional profits generated by the newly completed projects before they pay taxes if the projects facilitate the state's planned economic development. This practice provides some guarantee and benefits to enterprises that need loans and therefore have more economic responsibilities and investment risks; it helps enterprises obtain financial support, facilitates the adjustment of the economic functions, and boosts enterprise staying power.

But the practice of "pretax loan repayment" has produced some problems:

1. It increases enterprises' investment urge and aggravates the bloated investments. After "the substitution of taxes for profit delivery," enterprise investments are now funded by bank loans instead of government allocations. This increases enterprises' economic responsibilities and investment risks and integrates their rights and privileges, which should curb investment expansion and improve investment results. But it has not worked out exactly the way it should. Because instead of a single fund allocation channel we now have many investment fund sources, and because we have eliminated the administrative constraints, more loans are available, which encourages some enterprises to increase their investments, and more loans are being taken out, resulting in an "early bird catches the worm" situation. Loan funds are more elastic than allocated funds, and so not only have we been unable to reduce the scope of fixed asset investment but the scope is actually larger than what it was before the "substitution of taxes for profit delivery," and for the country as a whole, the investment scope continues to expand. Overall, the investments are not profitable, constructions are redundant, useless projects are everywhere, nothing is turning out right, and all the results are bad.

2. The practice squeezes tax revenues and public finance and is another way of "eating out of one big financial pot" as it cuts into the state's revenues: One of the main goals of "substituting taxes for profit delivery" is to straighten out the allocation relations between state and enterprises, so that the Financial Ministry no longer has to worry about enterprises' clamor for investment funds, and so that the state can concentrate on the structure-oriented key investments while enterprises, because they have to borrow money to invest, concentrate on their own economic benefits and development goals and on achieving the objectives of taking responsibility for their own profits and losses, making independent management decisions, accumulating their own funds, and pursuing their own development. But the result has deviated from the reform goal. Enterprises only go after the benefits provided by "pretax loan repayment," which abets the idea of "wait, rely, and demand." They would rather borrow money than use their after-tax retained profit to invest in technological transformation and improvement, and they use the state's tax revenues to pay for their investment loans, cutting into the state's financial income. This in fact is another form of "eating out of the same big pot."

3. This practice ignores economic efficiency and does not give expression to the state's subjective preferences in granting tax privileges. "Pretax loan repayment" is intended to work as a constraint on enterprise investments to prompt them to seek higher investment return. At the same time, by granting some loans special tax privileges, the state can control the economic development at the macroeconomic level and adjust the industrial structure. But in practice, the state's investment preferences have been ignored. Enterprises' use of loan funds is inefficient, and the loan funds are misdirected and the volume is out of control.

II

The above problems of "pretax loan repayment" prompt many theoreticians and relevant departments to reconsider and argue about the practice. A more representative viewpoint suggests changing all "pretax loan repayment" to "after-tax loan repayment" and combining this measure with the reform of the tax system by lowering the tax rate and sorting out the tax base to guarantee stable and increasing government revenues, hoping that this will prompt enterprises to really try to restrain themselves, accumulate their own funds, and pursue their own development.

I of course support the reform of the tax system and the perfection of the "pretax loan repayment" practice as a part of the in-depth reform process, but I cannot agree with the idea of turning all "pretax loan repayment" into "after-tax loan repayment." On this point, two questions must be clarified first: One, are the above problems inherent of "pretax loan repayment," or are they implementational problems? Two, what really are the merits of "pretax loan repayment," and is the practice worth saving?

The relationship between lending and borrowing will not by itself cause enterprises to pursue reckless and endless investments to the point of ignoring the investment benefits. On the contrary, because lending and borrowing are founded on remunerations and on the integration of rights and privileges, generally, they should be able to restrain enterprises' investment urges and prompt them to mind the investment benefits. The present problems of "pretax loan repayment" are not inborn or intrinsic problems but are problems created by the environment and by management.

1. *The inducement of an abnormal environment. China is pursuing step-by-step, in-depth restructuring of the economic system, but many old concepts, old systems, old conventions are still wielding their stubborn influences, spreading enterprises' tendency to pursue reckless investments on their own.*

First, there are errors in the investment guiding ideologies: Investments are essential to economic development, but they are predicated upon a balance of the investors' own and society's financial and material strength. An investment scope that is incompatible with the financial and material strength and cannot put that strength to optimal use or a scope that only emphasizes extensive expanded reproduction and ignores intensive expanded reproduction as well as individual investments that deviate from society's total investment scale can ruin the overall investment result. After "substituting taxes for profit delivery," the tie between enterprises and the state is completely severed as far as funds are concerned, and enterprises' fund supply is constrained. The tax incentive in the form of "pretax loan repayment" brings out the old investment concepts, and instead of vying for allocated funds, enterprises now fight over bank loans, and what they are really fighting over is the tax break offered by the state. This is one of the ideological causes of soaring investment loans and expanding investment scope. Furthermore, we often measure enterprises' strength by their fixed assets and emphasize their investment scope and ignore their investment return, and we do not really think of the return as being central to all investments, nor have we developed within us the concepts of scientific decision-making, input-output, and investment risks.

Second, the investment mechanism is flawed and the market is made up of the wrong kinds of investors. When loans replace investment fund allocations, many different kinds of investors have emerged. While enterprises' own interests are being emphasized and the central government's investment role is diminished, the local governments are still clinging to old regional concepts and influences. We emphasize opening up and enlivening enterprises, but no new macroeconomic control mechanisms are in place to deal with the new situation. In fact, the situation is out of control at the macroeconomic level and supervision is even more slack at the microeconomic level. As a result, enterprises fight over the "same big pot" of tax incentive provided by "pretax loan repayment."

Third, competition in the financial markets is abnormal. China's financial markets are immature, their mechanisms are imperfect, and they do not function properly. Competition among the specialized banks is not a spontaneous competition completely regulated by the financial markets. To a large extent, it is an abnormal competition hamstrung by the central and local governments. The specialized banks not only have to worry about their economic benefits but are pressured by local governments (departments.) There is no strict, scientific control over the banks' credit plans or the amount of money they print, and these factors add fuel to the swelling investment loans.

2. *Slack and erroneous management is among the major causes of the present "pretax loan repayment" problems.*

First, we have given up the management of the state's ownership rights to which the tax investments give expression. Under China's primarily socialist public-ownership system, investments are not the same as those in capitalist countries. "Pretax loan repayment" is not only a tax break but is also a kind of investment preference through which the state exerts macroeconomic control. Because the nature of this kind of state investment is not well understood, we have slackened the special management of these investments, thus robbing this practice of its seriousness and authoritative-ness, and enterprises recklessly go after more "pretax loan repayment" privileges, expanding its scope and volume. This reduces their investment efficiency and defeats the purpose of the tax privilege.

Second, the accompanying set of reforms and controls has been watered down. "Pretax loan repayment" is not just a matter of taxation. Its practice must be accompanied by reforms in the financial, banking, capital construction, and material departments if it is to be effective. But when this measure was introduced, there were no accompanying measures, nor were there any other control standards, and enterprises were able to take advantage of the loophole, and that is why it did not work.

Third, management is slack, methods are crude, and there is no rigid scientific standards. Flexibility in granting tax privileges and the inherent rigidity of taxation are not mutually exclusive. The management of tax investment should concentrate on administration, economics, accounting and related measures. This means we need careful examinations beforehand and control and analyses in the interim and afterwards. At present, management in these areas are weak and scientific management procedures and methods are absent.

III

As a lever with which the state intervenes in and controls the economy, taxation cannot be overlooked. As a tax break and a tax investment, "pretax loan repayment" is a form of debt payment to enterprises but is an expenditure to the state. Turning the state's tax expenditure into enterprises' debt payment puts taxes in the heart of

enterprises' expanded reproduction process, increasing and strengthening the state's economic intervention and controlling role.

First, it is a very effective way of using taxation to regulate and control the economic structure, especially the industrial structure. In "pretax loan repayment," taxes become a source of funds with which enterprises repay their investment loans, and so the state can achieve its specific economic goals and indicate its preferences by granting or withholding this kind of tax break. In adjusting the industrial structure, the state can grant such privilege to products and enterprises that suit the needs of the state plans to stimulate their development, and vice versa, and in this way, it can facilitate the proper distribution of society's productive capacity within the macroeconomic realm.

Second, by limiting the tax privilege, enterprise investment expansion can be kept under control. A tax break gives expression to the flexibility of taxation without compromising its solemn nature. It is a limited and unique policy with a special purpose and is a way for the state to exercise its political power to make a deliberate, limited choice. This privilege is limited in scope and time: 1) Only a limited few enjoy this tax break. Only the few enterprises that benefit the state's planned development and macroeconomic interests are favored; not all enterprises will receive this privilege. 2) This privilege is good for a limited time only. Loans must be repaid when due, and the money needed for repaying the loans must come from the additional profit generated by the new investment projects. Beyond the above scope and time limit, the benefits of "pretax loan repayment" will disappear. This kind of limited tax privilege will not cause enterprises to seek reckless and endless investments; on the contrary, it should restrain enterprises' investment urge.

Moreover, tax investments have a clear direction and legally prescribed examination and approval procedures to ensure that enterprises' investments are appropriate. The direction of flow of funds in "pretax loan repayment" is set by the state and it is an investment subject to the state's wishes. The practice is also regulated by tax laws. Therefore, not only are special funds reserved for special purposes and used according to plan but when there is a request for such tax privilege, there are stringent examination and approval procedures to be followed. Controlled by the banks, verified by the Financial Ministry, and restricted by stringent procedures, this kind of tax investment can be very effective.

If "pretax loan repayment" is completely eliminated and replaced by "after-tax loan repayment," taxation will not be able to play its above role and the state will lose its opportunity to exercise macroeconomic control in this area.

Of course, "after-tax loan repayment" should be a standard practice for all enterprise investment loans. It helps enterprises to limit their investments and prompts them to pursue intensive expanded reproduction to fulfill their

ultimate accumulation goal. But I disagree that all "pretax loan repayment" should be replaced by "after-tax loan repayment." I suggest some "pretax loan repayment" be preserved. The reasons are:

From the financial point of view, "after-tax loan repayment" is predicated upon lowering the state-run enterprises' 55 percent income tax (most suggest lowering it to around 35 percent) and solidifying the tax base (treating the debt payment portion as taxes.) The fact of the matter is, theoretically, there is no real significance in pretax or after-tax loan repayment themselves. If we lower the tax rate across the board because we want to replace "pretax loan repayment" with "after-tax loan repayment," the state's financial income will plunge. This is like replacing what used to be a special privilege with an universal privilege. Can the state afford it? Whether the tax rate should be lowered and if so by how much are a separate issue to be looked into but should not be linked to the elimination of "pretax loan repayment." In addition, "pretax [as published] loan repayment" severs the direct tie between taxation and enterprise investment, preventing the state from interfering with enterprises' investment decisions, and as a result, the state will also lose control over the direction and composition of enterprise investment at the macroeconomic level. In particular, the state will lose a very effective channel and measure for adjusting the overall distribution of productive forces, allocating the resources properly, and readjusting the industrial structure. Is this wise? Incidentally, [after-tax debt repayment] will also handicap the state's effort to develop important new tax sources. All these should be considered carefully.

From enterprises' standpoint, so long as the price system is not thoroughly restructured and straightened out, there will be serious inequality in enterprise after-tax profit retention, and considering the fact that the development of the productive forces is uneven and there are great disparities in the distribution and composition of productive forces among different regions and trades, and that market competition has not yet been perfected, enterprises' use of investment funds will not coincide with the planned development of the commodity economy. Moreover, the elimination of "pretax loan repayment" will not foster a sense of value of time, a sense of investment risk, a sense of input-output, or a sense of interest and efficiency among enterprises. On the contrary, it may prompt them to act in self-interest and cause short-sighted and short-termed behavior, which will diminish their staying power and vitality, and as a result, what needs to be developed will not gain the support they deserve, and what should not be developed may receive more funding than they should. This will be especially true for enterprises that originally had no tax privileges. This will upset the industrial structure. Once the state loses the financial participation and macroeconomic control opportunities, enterprise fund-use may become more unreasonable and wasteful and investments may go out of control.

IV

What can we do to preserve the "pretax loan repayment" practice but eliminate some of the defects that have appeared in the system? I suggest concentrating on strengthening management.

1. *We should develop the concept of state-ownership of tax investments.*

As far as the state is concerned, the tax break based on the legal tax rate given to enterprises when they repay their investment loans in "pretax loan repayment" no doubt is a tax investment expenditure. It is an expenditure that takes the form of a selective, special privilege, and it is one of the state's macroeconomic control measures. China is a socialist country and her tax investment practices are very different from that of a capitalist country. Since the state-run enterprises' basic ownership rights belong to the state, the tax money used to repay a loan in "pretax loan repayment" should be interpreted as a source of state funds to enterprises; it is an investment by the state in enterprises in the form of a tax break. Under the condition of "separation of government and enterprises" where enterprises are independent and are responsible for their own profits and losses, they must have complete management and use rights. The state, however, should not give up the ownership right to that money and should have clear ownership right to this tax investment. This is crucial to protecting the authoritativeness and seriousness of taxation, to curbing enterprises' irrational "possession" urge when they make investments, and to controlling the investment expansion.

2. *We should optimize the management of the practice of "lending tax money."*

In "pretax loan repayment," the taxes due on enterprises' before-tax profits based on the legal tax rate are given to enterprises free of charge to repay their investment loans as an expression of the state's support (tax break). In some ways, enterprises still have little economic sense of responsibility and risks. If the tax portion of their loan repayment is managed as tax due and is made available to the tax-paying enterprises (to pay debts) in the form of interest-free loans, and if we limit the term of those loans and audit their return regularly, the state can forgive the debts if the projects are profitable and are fulfilling the state's objective in giving the tax break. It can turn those loans into a tax investment and turn the money over to enterprises. If an enterprise investment project fails to generate the expected profits and fulfil the objective of the tax break, the enterprise must repay this tax loan and return the money to the state (pay taxes) when the loan term expires. In other words, the state will no longer be affected by enterprises' reckless investments or mismanagement, incurring unnecessary losses. This method combines the seriousness of taxation and the flexibility of credit loans. It not only gives expression to the purpose of "pretax loan repayment" but also manages the funds more effectively and enhances the microeconomic control capability.

3. *We should set up an accounting system and fund examination system.*

To show how the tax portion of "pretax loan repayment" is being used so that enterprises know, not just in concept but also in fund formation, how much of their investments are funded by the state's tax break, we need to give that money special treatment in the account books. We can set up two new account headings: "Tax Privilege Loans" (fund source) and "Tax Break" (fund use.) For example:

During the year a certain enterprise's extended construction project (or technical measure) which has been funded by a loan goes into operation, it generates 100,000 yuan in additional profit. The Financial Ministry has approved its "pretax loan repayment" privilege, and it repays its loan at a rate of 20 percent of its additional profit a year. The enterprise's legal tax rate is 55 percent. The accounting procedure is as follows:

(1) Income tax due on the 100,000 yuan additional profit is $100,000 \times 55 \text{ percent} = 55,000$ yuan. In accounting:
Debit: Profit allocation—55,000 yuan in income tax due. Credit: Taxes due—55,000 yuan in income tax due.
(2) According to the pretax loan repayment arrangement, the debt payment is $10,000 \text{ yuan} \times 20 \text{ percent} = 20,000$ yuan. This payment contains $20,000 \times 55 \text{ percent} = 11,000$ yuan in tax break. In accounting:

a. Debit: Profit allocation	9,000 yuan in project loan repayment
Debit: Tax break	11,000 yuan
Credit: Bank deposit	20,000 yuan
b. Debit: Taxes due	11,000 yuan in income tax due
Credit: Tax preference loan	11,000 yuan
c. Debit: Project loan	20,000 yuan
Credit: Fixed funds	9,000 yuan in enterprise fixed fund source
	11,000 yuan in enterprise fixed fund source in suspense

(3) Account entries when income tax is paid:

Debit: Taxes due—income tax paid	44,000 yuan
Credit: Bank Deposit	44,000 yuan

(4) After a certain period, the amount of tax break will require accounting:

a. *Handing the right to the tax investment to enterprises and offset the tax loans:*

Debit: Tax privilege loan	11,000 yuan
Credit: Tax break	11,000 yuan
Debit: Fixed fund source—fixed fund source in suspense	11,000 yuan
Credit: Fixed fund source—state fixed fund source	11,000 yuan

b. If the tax break is withdrawn:

Debit: Tax break fund	11,000 yuan
Credit: Taxes due	11,000 yuan in income tax due
Debit: Profit allocation	11,000 yuan income tax due
Credit: Tax break	11,000 yuan
Debit: Fixed fund source	11,000 yuan in fixed fund source in suspense
Credit: Fixed fund source	11,000 yuan in enterprise fund source

4. Tighten control over the "pretax debt repayment" procedure

To strengthen "pretax loan repayment" management, it is especially important to tighten the program control and examine the applications beforehand, audit and supervise the projects, and examine and evaluate them afterwards so as to create an effective management mechanism and a systematic management system:

a) When enterprises decide to invest, they should make a feasibility study report and apply for "pretax debt repayment" privilege from the Ministry of Finance's Tax Department. Enterprises may ask for bank loans only after they have obtained a "permit" from the Tax Department; otherwise, they must repay their loans with their own after-tax funds. In this way we can curb enterprises' reckless investment.

b) The state's Tax Department should examine and verify the applications in accordance with the state's policies and regulations and enterprises' investment feasibility study reports to decide whether they should grant the privilege, and it should make known its decision in a timely fashion.

c) After enterprises obtains the Tax Department's approval, they can apply for an investment loan from a bank.

d) The banks should handle the loan applications according to the state's credit plan.

e) When enterprises go into production, they should account for and manage the investment loans in the special way required by the Financial Ministry and the banks.

f) From the time enterprises apply for pretax loan repayment privilege, the Tax Department and the banks should exchange information on the examination and approval process, the loan extension, utilization, settlement, and progress, and they should have a set of communications procedure and forms.

g) The Tax Department and the banks should set up their respective special examination and approval system and loan project management system so as to supervise and examine the progress of enterprises' investment projects and the way they utilize their funds.

h) After an enterprise investment project is completed and becomes operational, both the Tax Department and the bank should examine the result of the investment. If it tallies with its original investment goal, a "confirmation certificate" will be issued, formally agreeing to the tax privilege, and the bank accepts the loan repayment arrangements. Otherwise, the "confirmation certificate" should be withheld, and there will be no tax privileges.

FOREIGN TRADE, INVESTMENT

Increased Technological Imports, Exports Planned

HK1804023890 Beijing CHINA DAILY in English
18 Apr 90 p 2

[By staff reporter Qu Yingpu]

[Text] Chinese purchases of foreign technology will accelerate as the government plans to pump billions of yuan into equipment for key industries this year.

The China National Technical Import and Export Corporation, the country's leading technology importer handling most of the buying for key projects, contracted to buy equipment worth \$136 million during the first two months of this year, said Xu Deen, the corporation's president.

During that period, however, equipment valued at \$290 million entered the country, he said.

The corporation contracted to import technology worth \$2.6 billion last year, compared with \$3.9 billion spent in 1988. China's total technology imports were valued at \$3 billion last year.

At least 90 per cent of the corporation's imports was funded by loans from the World Bank, the Asia Development Bank and Western governments. Suspension of loans from these institutions cost the corporation \$1 billion in imports last year, Xu said.

"I'm optimistic about this year's business," he said. "The State is embarking on new big industrial projects while the Western economic sanctions against China are beginning to thaw."

China is concentrating on the construction of 204 key industrial projects this year, investing 35.1 billion yuan (\$7.47 billion) in them.

Xu said the corporation's business with Canada, Belgium and Austria were not influenced and trade with West Germany and France is continuing.

The corporation imports primarily technology and equipment for railway renovations, computer-controlled

communications, electric power stations, and for the steel, raw materials and chemical industries.

Compared with its imports, the corporation's exports look even brighter this year, Xu said.

He said his corporation is negotiating with Indonesia, Thailand, Pakistan, Iran and Iraq on exporting software and equipment for the chemical, building materials and textile industries.

At least 10 projects are being negotiated and they are expected to earn China more than \$100 million.

They include an alkali plant in Indonesia and a hydrogen peroxide solution plant in Iraq.

During the first two months of this year, the corporation had already contracted to export technology and equipment worth \$5.33 million. Last year's total exceeded \$53 million. National exports of pure technology and accessories amounted to \$890 million last year.

Major buyers for the corporation's technology are from Southeast Asia, the Middle East and the Pacific nations where Xu said manufacturing technology is at a lower level than China's.

This year, he said, the corporation is planning to send a team to South America to open markets there.

Beside the export of equipment, the corporation will promote sales of Chinese-developed high-tech software.

Xu said his firm will also continue to sell the products of Western technology-backed projects to the providers of the technology to pay back loans.

Critique of Fujian's Externally Oriented Economy

90OH0412A Sanming ZHONGGUO JINGJI WENTI
[CHINA'S ECONOMIC PROBLEMS] in Chinese No 1,
20 Jan 90 pp 54-65

[Article by Huang Shanhe (7806 1472 3109), Key Research Team on "Externally Oriented Economic Studies": "Factors Limiting Development of Fujian's Externally Oriented Economy, and Possible Remedies"]

[Text] 1. Two Views On Externally Oriented Development and Characteristics of Fujian Province's Externally Oriented Development

(1) Two Schools of Thought About Externally Oriented Development

There are two different basic schools of thought about externally oriented economies. One regards those economies that practice a neutral rewards system, that is, those that employ a strategy of treating both foreign and domestic sales equally and without discrimination, as an externally oriented economy. Those economies whose reward system is partial to internal sales and is biased against external sales are termed internally oriented

economies. Here, the term "economy," whether internally or externally oriented, means the entire national economy. The other school of thought explains an externally oriented economy as one that is oriented toward international markets, and that takes part in international exchange. Conversely, economies that are oriented toward the domestic market and do not take part in international exchange are internally oriented economies. Here, the national economy is divided into two parts: One part is externally oriented, and the other part is not externally oriented. Alternatively, no such distinction is made; instead, the extent to which externally oriented economic activity (the degree of external orientation) plays a role in the national economy forms the basis for differentiating between an internally oriented and an externally oriented economy. When there is a substantial external orientation to the national economy (a rather high "degree of external orientation"), such a national economy is said to be of the externally oriented type. Conversely, it is internally oriented. Obviously, the nature of economic activity is the standard used in distinguishing between the latter two types as being internally or externally oriented economies, no consideration being given to the bias of the reward system in understanding an externally oriented economy from the standpoint of economic structure. Although yet others include the attendant system of organization and policies within the purview of an externally oriented economy, they do so only as an associated factor. The goal remains increasing the percentage of the externally oriented part in the national economy, or increasing the "degree of external orientation" of the national economy.

As a corollary to the different schools of thought regarding an externally oriented economy, there are two different schools of thought regarding externally oriented development. Adherents to the first school of thought emphasize changes in the reward system when discussing the development of an externally oriented economy, focusing on attainment of a fairly model operating environment. Adherents to the second school of thought (including several variations of it) emphasize changes in the economic structure when discussing the development of an externally oriented economy, focusing on the attainment of various ideal "externally oriented" goals. Thus, we distinguish between what is known as the "operating model externally oriented development concept," and the "structural model externally oriented development concept." The problem now is which of the externally oriented development concepts is the more desirable one.

First of all, if we hope to increase the percentage relating to the external economy, increasing the external orientation of the national economy without greatly changing the overall system and policies, the desire for such development of an externally oriented economy is essentially no different from the requirements for the development of export production under the old system. Second, if we take into account in advance that there will

be changes in the system and in policies, but regard them only as a prerequisite or associated conditions that serve as a model for certain structural changes, then problems continue to exist: Is the externally oriented structural model that we are determined to pursue more rational and more effective than the original model? As a corollary, is the economic structure's external orientation becoming better and better, or to the right "extent"? If the latter, on what is the determination of this "extent" based and how can it be ascertained? These issues contain very great uncertainties, it seems. Possibly some people may use the correlation between the fairly high "external economic orientation" of the "four small dragons," [Hong Kong, Korea, Singapore, and Taiwan] and economic growth as an example to support the "structural development view." However, the fairly high "external economic orientation" of the "four dragons" is only an effect that stems from a cause existing at a deeper level, and should not be regarded in terms of the *a priori* existence of a goal model. This deeper cause is reform of the reward system.

From this it may be seen that focus on a structurally-changed externally oriented economic development concept is not desirable. To do so may restrict us to the set pattern of the old system, pursuing remedies having miniscule effect; or it may require the mobilization from within the system of various factors for the attainment of a structural model whose rationality and feasibility cannot be determined. By comparison, focus on an externally oriented economic development concept of rewards system and organizational changes is more desirable. This is because once a normal operating environment develops in which key resources can attain more optimum allocation, the various integral parts of the national economy can play a more effective role. Under these circumstances, the formation and development of an externally oriented economic structure becomes a natural evolutionary process. This does not rule out purposeful intervention to foster development of certain economic sectors; however, such intervention is founded on natural comparative benefits. The attainment of a normal operating environment makes it possible to identify correctly where comparative static and dynamic benefits lie; consequently, subjective activity can play a more rational role.

Therefore, when discussing the issue of development of an externally oriented economy, we advocate the "operating model" development concept, and we do not advocate the "structural model" development concept.

On the basis of the foregoing discussion of the two concepts for development of an externally oriented economy, we believe that a regional externally oriented form of economic development strategy holds substantial limitations. It is an unsatisfactory development strategy. First of all, the achievements of the development strategy for coastal areas shows that, in terms of the overall situation, it is mostly a "structural" model and not an "operational" model. For this reason, an operational model that encompasses all of China cannot be

developed from it. Second, even were it possible to set up a regional operational model consistent with the goal model for development of a regional structure, this operational model would still not apply to the entire national economy. Furthermore, the actual operation of this regional operating model would be limited by the old operating model, and would be in serious conflict with it, thereby disrupting the entire economic order and environment. According to another one of our research reports¹ a survey done on the general policy to be used in foreign countries' development of an externally oriented economy showed that the development of an externally oriented economy requires an integrated domestic market and domestic policy in which the basic component for dealing with matters is development of a neutral reward system, including an associated system and policies. Clearly, the strategy for development of China's coastal regions is not consistent with the general methods for developing an externally oriented economy.

(2) Peculiarities of Fujian Province's Institution of an Externally Oriented Development Policy

If there are limitations in a coastal region externally oriented economic development strategy, then there are even greater limitations in provincial development of an externally oriented economy. Under these circumstances we still regard Fujian Province's externally oriented development strategy as problematical because of its various peculiarities, which merit further discussion.

The first peculiarity is that Fujian is a relatively poor province as China's coastal provinces go. In 1986, for example, in both terms of indicators reflecting the aggregate economy, and in terms of indicators reflecting the total per capita economic level, Fujian Province stood second from last among the 10 coastal provinces and municipalities. In 1978, per capita income in Fujian Province was 233 yuan, far lower than the national average (315 yuan). In 1987, its per capita income was still lower than the national average. It was also in order to permit the province to free itself from poverty and backwardness that the central government instituted special preferential policies for Fujian Province in the first place. In this regard, a special policy for Fujian is an entirely different matter than a special policy for the other developed provinces and regions in the coastal region. Furthermore, Fujian Province is not poor because it lacks resources. This province's inland mountain regions contain extremely rich mountain forest resources, and its seacoast also contains rich marine resources. The three cities of Chuanzhou, Fuzhou, and Xiamen have historically had rather active relations with lands across the sea, and they are relatively flourishing and developed areas. Because of the military confrontation that existed on both sides of the Taiwan Strait following liberation, Fujian's contacts with lands across the sea were virtually cut off. A province on the frontline, its economic development was naturally inhibited. Therefore, to a very large extent, Fujian's poverty is manmade; it is the price paid for the earlier confrontation between two systems. Thus, during the beginning of

reform and opening to the outside world, it made sense to have a special policy, which was very much like payment of compensation to this province whose backwardness stemmed from this reason.

The second peculiarity is that Fujian Province has a special mission in the development of economic relations with Taiwan and advancing the early unification of the motherland. Historically, economic intercourse between Fujian and Taiwan has been rather close. The customs, culture, and social habits of the two areas are very similar, and before they were separated, contacts between the peoples of both areas were extremely frequent. Most (82.5 percent) of Taiwan's population today are of Fujian origin. Thus, this historical, human, and geographic relationship provides a definite basis for the development of economic relations between Fujian and Taiwan, and at a higher level, the people on both sides of the strait can move ahead somewhat even before they become developed. Actually, relations between Fujian and Taiwan of an indirect and unofficial nature have seen substantial development in recent years. By developing economic relations between Fujian and Taiwan, Fujian Province can develop "three opens" [Chinese Communist policy suggested to open postal, trade, and navigational ties with Taiwan] as part of a process for spurring a shift from confrontation and separation between the two economies to the establishment of links, serving as a bridge and a middle ground, thereby making a special contribution to the realization of "one country, two systems" to advance the unification of the motherland.

The third peculiarity is that Fujian Province has been named a province for multiple experiments in overall reform and opening to the outside world. To a considerable extent, this has been done in view of the foregoing two peculiarities, but not entirely so. The multiple experiments will include structural models, as well as systems models, development tactics, and policy systems. Organizationally, current thinking encompasses both the economic system and administrative system. This provides Fujian Province substantial room for making choices about its future development, while simultaneously avoiding possible losses from large scale reform and opening to the outside world. In the development of an externally oriented economy, just how to proceed, identifying limiting factors, and what attendant policies should be adopted are lessons from experience that can be gained for a small price through this experiment. This differs from the development strategy for the coastal provinces, which are not conducting an experiment, but are rather carrying out policy decisions having wide ranging ramifications. Naturally, the results of the experiment will influence the central government and the local government in different ways. For the central government, both success and failure form an important basis for policymaking. It is important to avoid meddling in the course of the experiment, which might rob the results of the experiment of their significance for making policy decisions. For the local government, the results of the

experiments will have a direct bearing on whether the province's development will be faster or somewhat slower. The local authorities feel tremendous pressure, and they strongly hope that the experiments will be successful. This being the case, it is easy to stir local enthusiasm; however, subjective desires may play a rather large role.

Because Fujian possesses the foregoing three peculiarities as a relatively poor province in the coastal region, it holds a special position in the development of relations with Taiwan. Additionally, it has been designated a province for multiple experiments in reform and opening to the outside world, so we believe that Fujian Province's externally oriented development tactics should be given special consideration as a problem apart.

2. Factors Limiting Fujian Province's Externally Oriented Development

It should be noted, first of all, that the term "externally oriented economy" is used here to mean an externally oriented economic policy, system, and structure as an entity, and not just a narrowly construed "foreign market economy" "structural model" development concept. We have divided the limiting factors into two categories, one of which is nonspecific to Fujian Province, and is termed in general limiting factors, and the other of which is peculiar to Fujian.

General limiting factors including international limiting factors and domestic limiting factors. The direct influence of international limiting factors on an externally oriented economy are usually limited to the national level; however, a province that institutes special policies for opening to the outside world may generate a direct impact on itself. For example, when a province has a certain amount of autonomy regarding the export and export of goods, labor, and capital, it may feel the limiting effects on its externally oriented economic development of the international trade system, the international financial system, and the pattern of international division of labor, as well as the current status and development of all factors in the world economic situation. Under ordinary circumstances, however, the conditioning effect of domestic factors is somewhat larger. These include the following: the tilt of the country's foreign trade policies, the coordination of other policies, and the extent to which domestic markets are developed as well as the endowment of key production factors. In the realm of trade policy, even though the world has entered an era of free trade, some countries may still pursue closed, self-protection policies. An opposite situation may also exist, although it is difficult to sustain for long. In our article titled, "Development of an Externally Oriented Economy: General Limiting Factors and Basic Means of Dealing With Them," we discussed the general international and domestic limiting factors, so we will not repeat unnecessary details here. The succeeding section will focus on a discussion of factors conditioning Fujian's externally oriented development.

While acknowledging that there are three special arguments that make it sensible for Fujian Province to pursue an externally oriented development, there also exist three special factors that limit its externally oriented development:

First is the extent to which the central government gives Fujian economic authority and policy preference.

We have already noted that one fundamental characteristic or basic stipulation for an externally oriented economy is implementation of a neutral reward system, and that the basic goal or fundamental task in the development of an externally oriented economy is creation of an impartial operating environment for internal and external sales. The decision-making authority and the initiative in creating such a system or environment lies with the central government. This is because the major limiting factor—the tilt of foreign trade policies—is in the hands of the central government. The tilt of China's foreign trade policy can be seen without resort to figuring and comparing indicators such as the nominal import-export protection rate and the actual protection rate. It is internally oriented. Extensive quantity controls, a fairly high level of customs duties and the extent of customs duty differentials, foreign exchange rates set extremely high, and strict control over foreign exchange are all classic manifestations of an internally oriented trade policy. Obviously, such an internally oriented macroeconomic environment is not conducive to development of an externally oriented economy. If Fujian Province wants to develop an externally oriented economy, it will have to set up a microeconomic climate separate from this internally oriented macroeconomic environment within the territory under its control. Whether it will be able to do so will depend on the degree of economic jurisdiction and policy preference that the central government relinquishes to Fujian. This economic jurisdiction and preferential policy can either enable Fujian Province to avoid the limitations inherent in the macroeconomic environment, or it can enable it to adopt measures to cancel out the internally oriented effects of the macroeconomic environment, thus serving as a counterlimiting factor on the internally oriented economy.

At the beginning of reform and opening to the outside world, the central government conferred special policies on Fujian, which it subsequently gradually increased. This included the establishment of the Xiamen Special Economic Zone, declaring Fuzhou to be a coastal city opened to the outside world, and opening up the triangular southern area of Fujian as a coastal economic zone opened to the outside world. Overall, however, the preferential policies came down on the side of an "opening to the outside world" radiating outward from inside rather than "externally oriented development." To a certain extent, this also had a political motivation, and additionally the local authorities were not very well able to make use of the special policies. Consequently, the

economic jurisdiction and the policy preferences conferred on the province had little effect on the development of a genuinely externally oriented economy. In terms of the "export trade economy" alone, Fujian stood ninth in the country in 1979 for foreign exchange earnings from exports, and by 1987 it regressed two positions to eleventh place. In terms of per capita foreign exchange earnings from exports, in 1987 it also slipped to third place among the 10 coastal provinces and municipalities. With the advent of a coastal regional development strategy, Fujian's "policy preference" paled into insignificance (if the Xiamen Special Economic Zone is not taken into consideration). In the spring of 1988, the central government designated Fujian a multiple experimental zone for comprehensive reform and opening to the outside world. From a policy standpoint, this was yet another important favorable turn for Fujian Province. In principle, since it was a comprehensive and multiple experiment, the road to development of an externally oriented economy should have been smooth and unobstructed. This was not actually the case. The influence of the "internally oriented macroeconomic environment" likewise shrouded this area. The local authorities had to explore ways of getting out from under this shadow within the prescribed limits of their authority. In this, the degree of jurisdiction and policy preference continue to play a role as conditioning factors.

Second is the status of the development of relations between both sides of the Taiwan Strait.

As we have already said, relations between Fujian and Taiwan are not ordinary. Historically, the waxing and waning of Fujian Province has been closely associated with the relaxation and tightening of relations on both sides of the strait. When relations have been tense, not only has economic intercourse between Fujian and Taiwan been adversely affected, but economic intercourse between Fujian and the southeast coast and overseas areas has also been hurt. Because of geographical propinquity and human affinity, the development of Fujian's coastal regions has been conditioned by the status of relations between both sides of the strait more than by relations between coastal Fujian and inland areas. Within Fujian high mountains extend in a continuous chain, and streams flow in swift torrents. According to a saying, "Travel in Fujian is even more difficult than in Sichuan." Before liberation, there were no railroads in the province, nor was it possible to travel by automobile through the province's 46 counties. It was the most inaccessible of all the coastal provinces. This situation separated coastal Fujian economically from inland China, and naturally inland China exerted miniscule influence on the province. Changes in administrative subordination and transportation conditions following liberation brought about a change in this restricted situation. However, in terms of the development of an externally oriented economy, and an out-of-the-ordinary economy, the limitations that relations on both sides of the strait imposed were of crucial importance. Following reform and opening to the outside world, as relations on

both sides of the strait have moderated, and as the small amount of direct trade and the large amount of indirect trade between Fujian and Taiwan expanded, the number of compatriots from Taiwan coming to Taiwan as tourists and to visit relatives, and the number of Taiwan traders coming to Fujian to invest and do business has increased dramatically. In 1987, Fujian Province took in 80 percent of Taiwan capital invested in the country. As of the end of 1988, Xiamen alone took in one-third of total investment by Taiwan both in terms of the number of enterprises and the amount of investment. The development of economic and trade relations between both sides of the strait not only played a role in promoting development of economic sectors dealing with the outside world in Fujian Province, but also created a new environment and atmosphere. This environment and atmosphere helps drive the operation of the entire economy of the province in the direction of an externally oriented economy.

Development of relations between both sides of the strait also reveals a special model for the development of Fujian Province's externally operated economy. This is to say that its economic structure, including the trade structure, industrial structure, and the structure of sources of foreign capital, may become closely linked to Taiwan's economic structure. Its reward policies and management organization may also become more suited to the needs of Taiwan merchants and conventional business practices, taking account of the methods used in Taiwan in these regards. Such a special model may also be necessary for Fujian Province's fulfillment of its mission of advancing the unification of the motherland. This special model also holds significance for its use by Fujian Province in the fundamental development of an externally oriented economy once new initiatives in relations on both sides of the strait take place. For the moment, Taiwan's restrictions on Taiwan businessmen trading with the mainland and investing in the mainland may be said to be a case of orders not being carried out and prohibitions being ignored. The Taiwan authorities actually turn a blind eye to such dealings, appearing strict but acting lax. Travel to the mainland to visit relatives has been notably relaxed; prohibitions have been removed on one of the "three opens," namely "the opening of postal ties;" and diplomatically Taiwan has adopted a relatively flexible stand. The China mainland side of the strait long ago took the initiative in adopting a relaxed posture. All these things help the development of relations between both sides of the strait. Nevertheless, substantive development of economic relations between Fujian and Taiwan—a large volume of direct trade—has yet to be realized. Some ideas and work is underway in this regard.

Third is the province's natural endowment of key resources.

In terms of production factors, Fujian's poverty stems from a lack of capital. Both capital reserves and the amount of increase lag greatly. At the beginning of the Seventh 5-Year Plan, Fujian Province stood last among

the East China provinces in fixed assets in industries owned by the whole people. Its accumulation rate during the Sixth 5-Year Plan was also lower than the national average, and last among the 10 coastal provinces and municipalities. Naturally, this was attributable, to a very large extent, to past state investment policies. In addition, enterprises' economic returns are relatively low, and both capital profit and tax rates, and output value profit and tax rates are lower than the average for the country as a whole. Consequently, ability to generate wealth is low, and institution of the contracting of financial responsibility also did not fundamentally change the province's problems of a shortage of sources of revenue, and weak financial resources. Capital investment since the Sixth 5-Year Plan has also relied increasingly on domestic loans, funds raised by the populace, and infusions of foreign capital.

The shortage of financial resources directly impairs the capital construction of transportation, energy, and communications facilities, which hurts development of public utilities. Although ways were found to complete some projects during the past several years, numerous "bottlenecks" remain, particularly transportation "bottlenecks." Development of tertiary industries lags, adversely affecting, in turn, the growth of commodity markets and key production element markets. All these things impede development of an externally oriented economy.

A look at manpower resources shows the simultaneous existence of both surplus and shortage. Roughly 2 million of the province's rural workforce is surplus at the present time, but its educational quality is low (nearly 70 percent of the rural workforce has only a primary school education or less). At the same time, there is an extreme shortage of technically qualified workers, and it is estimated that only one-third of the existing scientific and technical personnel perform their jobs fairly well. This means there is a structural surplus of manpower resources. The existence of such a surplus of manpower resources is by no means a good thing. Until such time as productivity is developed, it might be more aptly termed yet another element in Fujian's poverty, because it lowers per capita national income and occasions social problems. However, under certain conditions, such as being able to obtain extra capital, resources, or providing training to convert its manpower into a kind of manpower resource that is much needed, it could then become a real productive force, and become a strength. In this regard, the "three forms of import processing and compensation trade" may provide the conditions for just such a transformation; thus, one might conversely say that the surplus workforce may prove a source of strength in this regard. Another realm of possibility is its use in conjunction with foreign capital for the development of mountain and marine resources. Naturally, this manpower surplus limits externally oriented development. In addition, the quality of the workforce in Fujian's coastal regions, particularly in coastal cities,

should be better, because it is these areas that are more likely to be selected for externally oriented development.

In a certain sense, Fujian's large number of overseas Chinese also count as a manpower resource, and they are a great strength among its manpower resources. Thanks to the more than 7 million overseas Chinese of Fujian origin living abroad, and the more than 5 million returned overseas Chinese, overseas Chinese dependents, and dependents of compatriots in Hong Kong and Macao living within the province, capital, skills, and markets are easier to come by. However, this strength is not completely inherent in the province.

In the field of natural resources, Fujian is superior to the other coastal provinces and cities in terms of mountain forests, as well as seacoast and marine resources. The province has abundant supplies of forest resources, the amount of land suitable for forests standing at approximately 5 mu per capita (six times again as much as the amount of arable land per capita). Forests cover more than 20 percent of the province's area, making it the province having the most abundant forest resources in southeast China, and the time required for trees to reach maturity is half that of forest areas of north China. Wild animal and plant resources in mountain regions are extraordinarily abundant, particularly so in the Wuyi Mountain heartland. More than 100 years ago, this was a "model producing area for biological specimens" that was famed throughout the world. The province's coastal and marine resources hold first place among coastal provinces and municipalities. The province's coastline is winding, making it the second longest coastline in the country, with many fine harbors. There are more than 125,100 square kilometers of coastal ocean having a depth of more than 10 meters that can be used for marine fisheries, an area much larger than the province's land area. In addition, water quality is good, and fish food plentiful. The beach area is more than 2.8 million mu in area, approximately 1.8 million mu of it suitable for reclamation from the sea for the breeding of aquatic products. Statistics show a utilization rate of no more than half of the province's mountain and sea resources. With a corresponding investment of capital and technical forces, the forestry, animal husbandry, and fishing industry workforce could be doubled. Fujian Province also has extremely rich nonmetallic deposits. Its reserves of pyrophyllite, building stone, and sand used in casting iron are the largest in the country. It also occupies second and third place respectively for reserves of granite, and kaolin. In addition, the province's natural geographical conditions are particularly suited to the growing of cash crops such as sugarcane and tea, as well as semitropical fruits. At the same time, however, Fujian's per capita amount of cultivated land, and the amount of land that can be brought under cultivation is fairly small. Historically, the province has not been self-sufficient in grain, and has had to import substantial amounts from other provinces. It also lacks sufficient energy resources. It has no petroleum and little coal. Each year it imports large quantities of coal. (Coal is the main thing shipped into

the province, accounting for nearly one-fourth the tonnage that enters the province.) This large scale shipment of grain and coal into the province also creates tremendous pressure on the transportation "bottleneck."

Fujian Province has both strengths and weaknesses in technology. The technical equipment in its enterprises was formerly of fairly low grade, only 30 percent of it meeting advanced international and domestic standards, and 70 percent of it being at the ordinary domestic level or lower. Since the Sixth 5-Year Plan, however, updating and technical transformation has proceeded fairly rapidly, approximately one-third of imported technical equipment meeting the international technical standards of the 1970's and 1980's. In 1985, the newness coefficient for fixed assets owned by the whole people in the province reached 0.7, first among the provinces and municipalities in east China. The province possesses strong potential in scientific and technical resources, but conversion of this potential into productivity has been relatively slow. Because of the irrational distribution of scientific and technical personnel, and the mismatching of personnel to technical jobs, scientific and technical personnel are as yet unable to play their role to the full. Additionally, as was said previously, structural deficiencies exist among technical personnel.

In summary, the prevailing international trade system, the international financial system, the pattern of international division of labor, and the trend of world economic development are general external factors limiting China's development of an externally oriented economy (both mechanism and structure). The title of the country's foreign trade policies, the coordination of other policies, the extent to which domestic markets are developed, as well as the endowment of key production factors are also general internal factors affecting the development of an externally oriented economy, and they are simultaneously basic factors conditioning each province's development of an externally oriented economy. The extent of economic jurisdiction and the policy preference that the central government confers on Fujian Province, how relations on both sides of the strait develop, as well as Fujian's endowment of key production factors may be regarded as special factors conditioning the province's externally oriented development. A look at the three special factors conditioning the province's externally oriented development shows that the first factor mostly affects the operating mechanism for externally oriented development, and the third factor mostly affects the economic structure for externally oriented development. However, the second factor may affect either the mechanism or the the structure.

3. Externally Oriented Development Tactics for Various Circumstances

Inasmuch as the central authorities conferred on Fujian Province special policy jurisdictions and, as was previously stated, since this was economically rational and politically necessary, it was Fujian Province's responsibility to make use of the policy jurisdiction conferred in

active pursuit of a distinctive externally oriented development strategy. The core of this strategy was the establishment of an externally oriented operating model separate from the operating mechanism existing in the country. Naturally, this also involved development of a distinctive structural model.

In the succeeding section, we will list the major factors limiting Fujian Province's externally oriented development, arranging them to form groups of several circumstances according to their likelihood and their precedence. They are as follows:

Category I Circumstances: Entire country internally oriented, with special policies for Fujian (I); not very rapid development of relations between Fujian and Taiwan.

Category II Circumstances: Entire country internally oriented, with special policies for Fujian (II); rapid development of relations between Fujian and Taiwan.

Category III Circumstances: Entire country externally oriented (I); slow development of relations between both sides of the strait.

Category IV Circumstances: Entire country externally oriented (II); rapid development of relations between both sides of the strait.

We will concentrate discussion on the corresponding development tactics for Fujian under Category I and Category II circumstances.

(1) Development Tactics Under Category I Circumstances

Under Category I circumstances, the policy organization of the whole country is internally oriented. In principle, a high degree of special policy authority is given to Fujian, but the actual extent is not high. Economic relations between Fujian and Taiwan do not advance very rapidly. Two of the "three opens" remain unopened. Under these circumstances, we believe that Fujian can institute the following special externally oriented development policy, namely a "partial countervailing externally oriented operating model," and a "guiding strategy for relatively concentrated flow of key production factors."

1. Partial Countervailing Externally Oriented Operating Model

This operating model is designed to take account of Fujian's special policy authority still not being sufficient to avoid the direct limitations on the territory under its jurisdiction of the internally oriented decision-making system existing in the country as a whole. It is characterized by the application of limited special policies to offset the disadvantageous effects of the internally oriented decision-making system, in order to shape within the province a result approaching neutral rewards. In this operating model, the basic framework of the internally oriented decision-making system still exists, but each of its components can be readjusted; thus, the

operating functions have changed. Under the influence of a series of countervailing measures, what appears to be an internally oriented mechanism produces externally oriented operating results.

The selection of countervailing measures is the key to building this operating model. Countervailing measures may be divided into two broad categories as follows: One focuses on the bias against exports created by high protectionist policies, and the other focuses on the obstacles that market and investment controls occasion for a rational allocation of resources. When we say that the domestic decision-making system is internally oriented, we mean mostly its high protectionist policies and overcontrol of markets and investments. High protection policies can jack up the domestic prices of imports, thereby causing prices of domestic wares of the same kinds to rise. Thus, a relative lowering of the domestic price of commodities to what could be obtained were they to be exported, produces a different view of the the external versus the internal sale price of exportable commodities that encourages internal sales and discriminates against foreign sales. Overcontrol of markets and investment creates market fragmentation in which prices of production factors and products are distorted, and the rational flow of production factors is blocked. The result is that resources frequently flow toward or remain in capital-intensive sectors that take the place of imports from which returns are low, or else in nonproductive fields, putting a brake on production for foreign sales.

On the basis of this judgment, we suggest that a systematic countervailing measures plan be designed in which the inclusion of the following measures might be considered.

(1) Measures To Counteract Protectionist Policies That Have Unfavorable Effects.

A. In view of the large number of restrictive measures, every effort should be made within the jurisdiction of the province to lessen the number of permit controls. Permit issuance authority can be delegated to prefectures and cities, or to sites set up in main prefectures and cities. Improvement of the permit and quota issuance and allocation systems should, in principle, result in open auctioning, or else the levying of certain surcharges (taxes) on imported merchandise the quantities of which are restricted in order to swallow up profits from quotas (if importers do not pay attendant fees to obtain import permits and quotas). The establishment of import-export associations, guilds, and chambers of commerce in combination can also be a way of providing a certain amount of quota allocation authority.

B. In view of foreign exchange overestimates and foreign exchange control measures, the existing foreign exchange regulation centers may be used as a basis for further relaxation of restrictions on regulation prices, currencies concerned, and scope. Foreign exchange retention methods can also be further improved to increase the

percentage retained by enterprises, the percentage retained being regulated according to the extent to which exports are processed.

C. In view of the high customs duties and customs duties differentials, not only should the whole country institute a unified late duty and duty refund system, but it can further increase indirect export subsidies, including exemption from or refund of internal indirect duties (such as, whenever possible, changing from duty refunds to exemption from duties, and enabling firms that provide substitute import inputs for export products also to receive benefits), provide preferential export loans (which may be done in conjunction with the establishment of import-export funds and import-export banks), and official or semiofficial quarters can provide various services, such as market research, information collection, organization of commodity trade fairs, etc. So long as it does not lead to countervailing duty retaliation, direct export subsidies may be increased as financial resources permit.

D. In view of institutional monopoly (over import-export channels and import-export prices), the existing specialized foreign trade corporations may be further improved, industrial trading corporations being further developed, and restrictions removed on grassroots level and internal import-export operating authority.

(2) Measures To Counteract the Bad Effects of Market and Investment Controls

A. Financial market obstacles show up mostly in the control of interest rates at an extremely low level, and strict limitations on the amount of credit, increased limitations on the issuance of securities, particularly their circulation, and fairly strict limitations on the establishment of financial institutions and on the scope of their activities. In this realm, except for interest rates and credit control, which cannot be easily counteracted, a beginning has been made in other regards. Thus, what is needed is continuation and deepening of experiments.

B. Labor market obstacles show up mostly in considerable difficulty in labor mobility between one area and another, and between the official sector (state-owned enterprises) and the nonofficial sector (nonstate-owned enterprises), and strict control over employment and wages in the official sector. The rise of labor service companies and personnel exchange centers in the province's coastal areas, and the institution of contract labor systems and bonus systems in recent years have partially offset control in these regards. However, formation of a labor market still depends on the establishment of a social labor insurance system; therefore, it should be promoted as an important reform measure.

C. The main problem today in commodity markets involvement in mostly a two track price system is elimination of the disorder in commodity circulation that the dual markets cause. Price reform is extremely sensitive; therefore, it is necessary to proceed carefully.

So long as uncertainties exist, it should be done in a synchronized way throughout the whole country.

D. Control over investment means mostly the extremely complicated permission examination and approval system, including both internal investment and external investment, and includes both input (production and administrative) barriers, and also includes withdrawal barriers (transfers, disbandments, and bankruptcies). To a very large extent, these obstacles are manmade. Data show the average period required in Fujian Province from the time when a project is decided on until it goes into production is between one-half to one year longer than in Guangdong Province. Therefore, improving work efficiency through structural readjustments can eliminate investment obstacles to a very large extent. Of course, some rules and regulations whose content (but not procedures) obstruct the rational flow of resources should be amended within the limits of the province's authority.

Simply stated, this comprehensive plan for countervailing measures both seeks to avoid exceeding authority in violation of uniform policies that apply to the whole country, and also dares to adopt positive and vigorous measures in the area of flexibility. Its goal is to counteract the anticexport bias, and obstacles to the flow of resources. Thus, the addition of further associated policies may, it is hoped, lead to the building in Fujian Province of a partial countervailing externally oriented operating model.

It should be pointed out that this operating model may, to a certain extent, reproduce certain of the defects in the coastal region development strategy, such as the bonus system possibly becoming complicated and having lower transparency. This is difficult to avoid in a countervailing operating model.

2. Guiding Policy for Relative Concentration of Key Production Factor Flow

It is impossible to establish an "externally oriented structural model" having uniform inherent standards (including quality and quantity standards) on the basis of our ideas about an externally oriented economic development concept.² On the other hand, commonly analyzed economic structures of various kinds such as industrial structures, regional structures, and trade structures are configured for the optimization of production factors; thus, they are related to the direction of flow of production factors. In principle, an externally oriented operating model will set the stage for a rational flow of production factors, and certain externally oriented economic structures (unambiguously speaking, this means various economic structures under an externally oriented decision-making system) will form and develop naturally, thereby eliminating the need for government reintervention. (Actually, the establishment of an externally oriented operating model is for the purpose of eliminating the effects of past government meddling in the flow of key production factors). However, under the

following two circumstances, intervention may become necessary. One circumstance is pursuit of special economic benefits (trends that are relatively beneficial, and certain suddenly arising opportunities), or various political needs. The other circumstance is that the externally oriented operating model per se is not yet sufficiently well developed, so the flow of key production factors is not yet rational. Under these two circumstances, intervention in the flow of key production factors is characterized by a "reversal."

The "relatively centralized guiding policy for the flow of key production factors" mentioned here means taking into consideration the necessity for intervention under the two aforementioned circumstances. Specifically, one matter is to make use of the difficult-to-obtain opportunity for taking in large amounts of foreign capital, particularly Taiwan capital, to augment the province's own scarce key production factors, as well as to advance further development of relations between both sides of the strait. Second, is the need to overcome "transitional dispersal" tendencies that may possibly exist in the flow of key production factors when using the "countervailing externally oriented operating model." This second need stems from the continued existence, to a certain extent, of key element and product price distortions because of the not very high transparency of the reward system in the "countervailing externally oriented operating model." This results in its comparative static returns continuing to be not very definite, and the fluidity of key production elements at this time rising markedly with the large scale elimination of market obstacles. Under these circumstances, it is possible that the flow of substantial key production factors may be at variance with natural comparable returns, and naturally there is also no lack of experimentation. The result is that the direction of flow of key production factors will tend to be dispersed.³ In addition, relations between Fujian and Taiwan are still not developing very rapidly at this time; thus, the aforesaid wrong way flow of key production elements cannot be markedly reversed. Therefore, we estimate that after adoption of a "countervailing externally oriented operating model" to deal with the first circumstance, an overly dispersed key production flow structure may occur locally. For example, in view of Fujian Province's endowment of key production elements, the flow of capital, which is a key production element in short supply, may be through numerous channels, but the overall cost, or price, of using it may be inordinately high. Capital may also be used in an overly dispersed way resulting in overly low overall returns from its use. However, it is still difficult to decide whether these highs and lows are related to comparative costs and comparative returns. As a corollary to the use of capital, the use and flow of manpower and other key production resources may also be overly dispersed, and the backdrop of "general economic boom" may conceal waste of key production factor resources.

Therefore, we prescribe a "guiding policy of relatively concentrated flow of key production factors," both as a

remedy for overcoming the tendency toward too great a dispersal of the flow of key production factors, and as a measure for taking the initiative in striving for economic benefits for the province, and the political needs of the country. The following section contains some extremely sketchy ideas about this.

(1) Measures To Overcome Dispersal

A. Inasmuch as the "countervailing externally oriented operating model" mostly solves the problem of bias against foreign sales without solving the problem of bias among sectors, it is necessary to apply financial, tax, and credit policies to do all possible to reduce average reward differences (i.e. differences in the average level of rewards for internal and external sales) between semi-processed goods and manufacturing industries, and between the raw and processed materials sector and the processing sector, and to guide investment of funds gathered together by enterprises and the people, and foreign capital in order to concentrate appropriately key production factors in resources industries, and in the highly interrelated raw and processed materials sector.

B. Since it is difficult to counteract control over interest rates, most capital-intensive industries will continue to be encouraged; therefore, "a tooth for a tooth" will have to be applied to restrain use of limited credit (the capital-intensive sector having special relative strength excepted), and to use credit to encourage other key production factor-intensive sectors.

C. Official investment should be concentrated on the building of basic social facilities (transportation, posts and telecommunications, water and electricity, and other public facilities). The main sources of funds are to be investment of public funds by governments at all levels (and getting support from central government departments concerned), long-term preferential loans from abroad (including multilateral loans from international financial institutions, and national or regional official assistance loans, but avoiding investment of commercial loans in basic social facilities), as well as the issuance of local construction bonds, and also permitting foreign businessmen to invest. However, close watch should be maintained on investment requirements. Much energy should be spent on the removal of transportation "bottlenecks" that have a long-term and serious effect on the province's economic development (the province's posts and telecommunications problems should be solved first, and then transportation problems). Consideration should also be given to the establishment of a provincial communications bank through stock share subscriptions to take in domestic and foreign capital in order to change the province's transportation situation as quickly as possible.

(2) Measures For Taking the Initiative

A. Further encouragement to and channeling of capital from Taiwan. In addition to the preferential policies for encouraging the use of Taiwan capital published by the

State Council and the province, various Taiwan capitalized processing development zones can be opened in coastal areas having a fairly high concentration of compatriots of Taiwan origin, preferential policies that apply to foreign businessmen in general being applied to Taiwan businessmen who invest in the processing zone, and all or most of their products being exported. The building of basic facilities and associated facilities in the processing zone can be done as requirements dictate, or carried out by local government investment organizations. Alternatively Taiwan capital and foreign capital can be drawn on for a joint venture, or development can be done by permitting the contracting of work and the contracting of tracts using Taiwan capital and foreign capital. In the Taiwan investment zone developed through the contracting of tracts, tertiary industries may also be developed. The form of investment in the processing development zone need not be uniformly imposed. Each processing development area may have its own emphasis, some of them mostly labor intensive, others capital intensive, etc. In the use of Taiwan capital throughout the province as a whole, much less should the form of investment be held to a single pattern. However, overall, investment should be primarily in labor-intensive projects, the mainland appropriately showing the way with some capital-intensive projects, and the seacoast giving consideration to some technical knowledge-intensive projects.

B. Promotion of the opening of navigation and trade between Fujian and Taiwan. Along with the overcoming of transportation "bottlenecks" should be greater development and perfection of tourist facilities to increase the province's attractiveness to Taiwan compatriots for tourism and visits to relatives. As the number of Taiwan compatriots coming to Fujian increases and pressures for the "opening of navigation" increase, the idea of a Xiamen - Jinmen tourist line" can be realized, and the day of the formal "opening of navigation" between Fujian and Taiwan cannot be far off. Continued development of small scale direct coastal trade and expansion of large scale (indirect) trade between Fujian and Taiwan will give some impetus to increasing the "opening of trade" between Fujian and Taiwan. However, realization of this truly great leap must await more courageous efforts.

C. Establishment of a Fujian-Taiwan economic cooperation zone in Xiamen. This was an idea proposed by several people in the Fujian Provincial Economic Research Center and the Fujian Provincial Academy of Social Sciences.⁴ This idea is synonymous with the spirit of recent State Council ratification of the designation of pertinent areas of Xiamen as a development zone for investment by Taiwan businessmen. Its basic idea is to use the favorable situation of the Xiamen Special Economic Zone's great attraction for Taiwan businessmen to make pertinent areas an overall economic cooperation zone between Fujian and Taiwan, policies similar to those used in a free economic zone being instituted within the zone. In connection with this idea, the "opening of navigation" and the "opening of trade" between Fujian and Taiwan could be put into effect within

this economic cooperation zone. We believe that those concerned can draw up more concrete and more workable "measures for taking the initiative" on the basis of this idea to promote the early arrival of the time when economic relations between Fujian and Taiwan will rapidly develop.

(2) Development Policy Under the Category I Circumstance

Under the Category I circumstance, the decision-making system throughout the country is internally oriented, however, a fairly high degree of policy jurisdiction is actually relinquished to Fujian; economic relations between Fujian and Taiwan advance rapidly; and the "three opens" are put into effect at least in the special zone (Xiamen) of this province. Under these circumstances, we believe that Fujian can put into effect a "partially exempt externally oriented operating model," and a "guiding policy of relative decentralized flow of key production factors."

1. The Partially Exempt Externally Oriented Operating Model.

This model was designed to take into account Fujian Province's special policy authority for direct exemption, within its own territory, from the restrictions of internally oriented policies that apply to the country as a whole. It is characterized by the use of immunity to create a basically neutral rewards system in the province. In this operating model, the basic framework of the internally oriented decision-making system is not replicated.

Like the rationale for countervailing measures, the formulation of exemption policies is the crucial issue in this operating model. The exemption policy also includes exemption from both highly protectionist measures and strict market controls. In China's special economic zones, some exemption measures are already extant to a certain extent; however, likewise they have not been applied to the establishment of systematic measures for a fairly standard externally oriented operating mechanism. Therefore, we suggest that some of the special policies adopted for the country's special economic zones at the present time be used as a basis, that reference be made to methods used in foreign countries for setting up special economic zones in backward, border, and out of the way places, and that consideration be given at the same time to requirements for further development of relations between both sides of the strait, as well as to some features of Taiwan's reward policies and administrative system for the formulation of a systematic exemption policy plan for the province, the main framework of which should include the following:

(1) Exemption From Highly Protectionist Policies.

A. Except for export allotments having to do with foreign trade protection matters, allotments and permit controls (items prohibited from import or export naturally included) related to China's strict control over imports and exports, quantity control measures should be abolished within the area of jurisdiction as a matter of

principle. Small amounts of exceptional allotments and permit controls among the foregoing can be handled by the countervailing measures adopted under the Category I circumstance.

B. Following removal of restrictions on foreign exchange readjustment prices, currencies concerned, and limits, and the devaluation of Chinese currency (possibly done at several different times), official fixed foreign exchange rates may be abolished, and floating foreign exchange rates having upper and lower intervention limits may be adopted. At the same time, the foreign exchange with-holdings system can be abolished, enterprises keeping all income derived from exports. As an aid to control, possibly foreign exchange equivalent to renminbi may be used as currency inside the zone. Taiwan currency could be directly exchanged. One more daring idea is to permit Taiwan currency to serve inside the zone as a circulating and payment medium, making Fujian a Taiwan currency zone; however, authority to make such a decision clearly does not reside in Fujian.

C. Gradual reduction of import duties within the province to Taiwan customs duty levels is recommended, merchandise coming from Taiwan being exempt from import duties. Imports used to produce exports would be exempt from duty and from indirect taxes within the province. In addition, depending on the lowering of protection levels, and on the basis of relevant Taiwan reward policies, corresponding readjustments should be made in direct and indirect export subsidies.

D. Implementation of policies in the above three regards will lead to a complete removal of restrictions on all jurisdictions, all trading corporations, and all firms engaging in importation.

E. Inasmuch as at least some opening of navigation and opening of trade between Fujian and Taiwan will occur during this period, special measures may be instituted for the entry to and exit from this zone of Taiwan compatriots and Taiwan businessmen, providing them some accommodation and preferential treatment.

(2) Immunity From Market and Investment Controls

A. Abolition of control over interest rates and loan limits.

B. Abolition of the two track price system, not just for prices of various public utility services, but for all other commodities as well. Where public utility service prices are too low, production subsidies should be provided.

C. Abolition of restrictions on provincial investment examination, approval and control authority, allowing the provincial government to take charge of examination, approval and control authority over investment in the zone in accordance with pertinent state regulations. Every effort should be made within this premise to reduce barriers to the importation and repatriation of domestic and foreign capital.

D. Countervailing measures under the Category I circumstances may be applied to to other market controls.

Clearly, adoption of the foregoing immunity policy measures, and the building of an externally oriented operating mechanism has the advantages of high reward transparency, a reward system closer to neutrality, and fewer market obstacles than a countervailing externally oriented operating mechanism. Moreover, such an operating mechanism takes into account, to a considerable extent, advances in Fujian-Taiwan economic relations, dynamically linking the zone's operating future and the future development of relations between both sides of the strait.

This "partially exempt externally oriented operating model" will turn Fujian into an extremely special zone, producing what might be called a "free economic zone 'border region'" outside the customs area. This so-called outside the customs area means that the exemption policy measures it practices substantially separate it from the domestic internally oriented decision-making system, subjectively placing it outside the province of the customs. By so-called "border region" is meant the linking of its externally oriented policy-making system to Taiwan, which it faces, but without the limitations of a customs area with regard to Taiwan. In this respect, it would be like the "border free zone" established between Mexico and the United States. The difference would be that quotation markets have to be added to the term "border area," because Taiwan is a part of Chinese territory. Furthermore, this externally oriented operating model is not a simple duplication of the "border free zone." It also embraces the operating features of China's special economic zones, of Taiwan, and of Fujian Province. The establishment of such a unique "border area" free zone" is feasible from a geographic, human relations, and economic standpoint, and its political significance is self-evident.

2. Guiding Policy for Relatively Dispersed Flow of Key Production Factors

An exempt externally oriented operating mechanism is a comparatively mature externally oriented operating mechanism. Looked at in terms of comparative static returns, key production factor distribution will be optimized in such a mechanism. Nevertheless, there will still remain the necessity to strive for special benefits and to intervene in the flow of key production factors. Looked at in terms of a quest for political requirements and the economic returns that favorable opportunities provide, neither of these two considerations is necessary, because the foregoing operating mechanism already takes these two factors into consideration. However, because the operating mechanism itself has this proclivity, the flow of key production factors may be overconcentrated. This is to say that the distribution of key production factors may become excessively linked to the state of Taiwan's economic structure. Such an overconcentration is in keeping with political requirements, and can yield short-term comparative static interests, but it can damage the

province's long-term comparative static interests. This is because it is necessary to exert "counter" influences, implementing a guiding policy for relatively dispersed flow of key production factors."

The main ingredient of this guiding policy is the use of a scientifically formulated long-term industrial structure plan as a foundation for timely implementation of an industrial guidance policy, thereby enabling a transfer of resources toward fields that offer comparative dynamic advantages. For the past 20 or 30 years, Taiwan has conducted an externally oriented economic development strategy, which lends it experience that is worth borrowing. However, in the pursuit of comparative dynamic benefits, and guiding a change in the industrial structure, Taiwan is slightly inferior to Japan. Therefore, when facing the same kind of appreciation of their currencies, most Taiwan enterprises became panic stricken and verged on bankruptcy, while Japanese enterprises were able to be calm and unruffled, and continue contending for mastery. This fact warns us that in the process of steady development of economic and trade relations between Fujian and Taiwan, and increasing improvement of economic and trade structural links between Fujian and Taiwan, we must channel resources in a timely and appropriate way from labor and resources-intensive industries to capital-intensive one, particularly shifting toward technical knowledge-intensive ones.

(3) Development Policy Under Category III and IV Circumstances

Under Category III circumstances, the decision making system of the entire country has shifted toward an external-orientation, but it is part of an immature countervailing externally oriented operating model, and it is assumed that at this time relations between both side of the straits (meaning the entire mainland and Taiwan) are developing slowing (relations between Fujian and Taiwan possibly differing in speed). Under these circumstances, Fujian Province's external development strategy will have to be decided on the basis of the special extent to which it has been granted policy rights. When the special extent is low, it will adopt the externally oriented model and guiding policy called for under the Category I circumstances. When the special degree is high, it will adopt the externally oriented development policy called for under the Category II circumstances. However, this is suited only for use when relations between Fujian and Taiwan develop fairly fast. When relations between Fujian and Taiwan do not develop fast, its operating model will have to give up the policy measures adopted when relations between Fujian and Taiwan are developing rapidly. Guiding policies for the flow of key production factors will also have to be changed to the guiding policies of the Category I circumstances.

Under the Category IV circumstances, the decision-making system of the whole country changes to a more mature externally oriented operating model, and relations between both sides of the strait are developing rapidly (with at least partial implementation of the

"three opens"). Under these circumstances, Fujian is under no obligation to institute special policies, and its externally oriented development strategy is also only a purely structural development model issue, the main ingredient of which is implementation of a limited guidance policy for the flow of key production factors as the local endowment of key production factors warrants.

It should be made clear that the Category II and Category III circumstances will not necessarily occur in that order. Possibly, the situation will go from the Category I circumstances directly into the Category II circumstances, and it is also possible that the Category II circumstances will do directly into the Category IV circumstances.

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Footnotes

1. See "Development of an Externally Oriented Economy: General Limiting Factors and Basic Means of Dealing With Them," which appeared in ZHONGGUO JINGJI WENTI [CHINA'S ECONOMIC PROBLEMS], Issue 6, 1988

2. An externally oriented operations model has uniformly inherent standards, namely a neutral reward system that treats internal and external sales equally and without discrimination

3. This dispersal means that key production element resources cannot be correspondingly concentrated in fields where they enjoy a relative natural advantage, but scattered into other fields. Consequently, key production elements are relatively "dispersed to" (termed "concentrated in" under the old system).

4. See Li Xiaoming [2621 1321 6900] et al: "Ideas About a Fujian-Taiwan Economic Cooperation Zone," and Jin Hongxun [6855 3126 3065]: "Prospects for an Economic Circle on Both Sides of the Strait, and for Fujian-Taiwan Economic Cooperation," both of which appeared in FUJIAN LUNTAN [FUJIAN FORUM], Issue 6, 1989.

Foreign Trade Companies Being Weeded Out

90CE0053B Beijing GUOJI SHANGBAO in Chinese
20 Mar 90 p 1

[Article: "Work in Rectifying All Kinds of Foreign Trade Companies Currently Being Given Very Close Attention; Approximately 70 Percent of Units Have Submitted Plans, and More Than 800 Have Been Abolished or Merged"]

[Text] Since mid-August 1989 when the CPC Central Committee and the State Council published "Decisions on Further Rectification of Companies," what has China

done about the rectification of companies in the foreign trade field? Recently the correspondent interviewed Li Guodong [2621 0948 2767], the deputy director of the Foreign Trade Control Department of the Ministry of Foreign Economic Relations and Trade, on this matter of general concern.

First, Deputy Department Director Li reviewed the situation during the past several years in the rectification of all kinds of foreign trade companies. He said that the present rectification of foreign trade companies is the second such in China. The first one began in 1985. The main task at that time was to delineate the vocational purview of each corporation, and to catalogue commodities for which they were responsible. A survey was made and statistics collected on corporation volume, and some problems were solved in a company's lack of distinction between government administration and enterprise management, activities that exceeded their vocational purview or were in violation of the law, and even the smuggling and illegal import and export of goods. This spurred foreign trade companies of all kinds to enforce national policies conscientiously, to observe national laws and rules and regulations, and to abide by the law in their activities.

The number of foreign trade enterprises approved for establishment by various jurisdictions has greatly increased during the past two years. Taken together with those founded during the past several years, China now has more than 5,000 companies of various kinds engaged in foreign trade. The serious lack of coordination between the number of companies and China's current export capabilities, the numbers and quality of personnel engaged in foreign trade, and the shipping capacity of transportation has led to a shortage of supply of exports, incessant preclusive buying "wars," chaotic business procedures, inaccurate delivery dates, and a decline in both the quality of commodities and the honoring of agreements. This has both impaired the development of foreign trade and damaged the country's foreign trade reputation. Thus, the present rectification of all kinds of foreign trade companies is imperative.

He said that since the CPC Central Committee and the State Council decisions of 1988 and 1989 to conduct a rectification of companies, the Ministry of Foreign Economic Relations and Trade has conscientiously planned and made assignments for the rectification task. It has drawn up regulations pertaining to the rectification work, and laid out various procedures and specific work tasks for the evaluation of the companies. The overall situation is good judging from progress made to date. Most jurisdictions and units have submitted to the Ministry of Foreign Economic Relations and Trade plans for the abolition, merger, and retention of various kinds of foreign trade companies under their jurisdiction in accordance with State Council requirements. Thirty-two, or 72 percent, of the 44 units responsible for making reports in all jurisdictions have reported; and 39, or 70 percent, of the 55 units required to report from all

sectors have reported, a total of more than 800 companies proposed for abolition or merger. He pointed out that these figures also show that progress has been uneven in that some jurisdictions and units have yet to submit plans.

He told the correspondent that the rectification of foreign trade companies is still facing some problems today, such as a small number of companies that deserve to be abolished or merged doing all possible to hold on; and some units and jurisdictions adopting a wait-and-see attitude. Some of the plans submitted fall far short of the State Council's requirements; and in some places and units, some specific problems and difficulties really do exist.

Deputy Department Director Li said that the Ministry of Foreign Economic Relations and Trade is closely examining plans already submitted. Companies for whom plans are consistent with prescribed requirements will be granted authorization first. In cases where plans fall short of requirements, talks are currently underway with the units concerned. When a company's demands are fairly reasonable, they will be conscientiously studied for a solution. Units that have not yet submitted plans will be urged to hurry to comply.

Light Trucks Exported to Thailand

HK2304054790 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 23 Apr 90 p 3

[By staff reporter Xu Yuanchao]

[Text] Chinese-made light trucks using technology transferred from Isuzu Corporation, a leading Japanese truck manufacturer, have been shipped to Thailand.

Thailand is Isuzu's first overseas market where the Japanese company has plunged billions of yen for promoting sales of its trucks over the past few years.

Isuzu trucks represent nearly 30 percent of the total motor vehicles rolling on the roads in Thailand.

But now 30 China-made BJ-136 light trucks have entered the Thai market under a contract for exports of 420 such vehicles.

The contract was signed in Beijing by the Beijing Light Automobile Corporation and the Sammitr Motor Co., Ltd. of Thailand after the Beijing corporation chairman Wang Jun visited Thailand last October.

The BJ-136 light truck is a transfiguration of BJ-130 and made by the Beijing corporation using the technology introduced from Isuzu, said Wang Jianzhi, manager of the automobile division of the China International Trust and Investment Corporation (Citic) Development Inc.

The 2-ton light truck equipped with a diesel engine consumes 10 litres of fuel per 100 kilometres and has a maximum speed of 96 kilometres per hour.

The Beijing corporation is China's fourth auto joint venture set up in April 1988 by the Beijing No 2 Auto Works, the Citic and Shortridge Limited of Hong Kong.

Wang told China Daily that the 420 light trucks with right-hand steering will be delivered to Thailand this year.

"We've held a toehold in the Thai market which is now bearing fruit after three years' painstaking efforts," Wang said.

"The truck is sold cheaper than the Japanese model and its spare parts can be replaced by Isuzu's when they are in short supply," he added.

Thailand depends on its highways to transport most of its passengers and cargo. And light trucks accounts for 58 percent of all motor vehicles.

According to a marketing study report of the Beijing corporation, the Thai demand for light trucks has been soaring in recent years and is expected to reach 180,000 units this year.

Sales of Chinese trucks have broad prospects in Thailand, Wang said.

The Beijing corporation has been trying to increase production of its light trucks and to work on new models.

Increase Sought in Steel Exports

HK1204025390 Beijing CHINA DAILY in English
12 Apr 90 p 2

[By staff reporter Ren Kan]

[Text] China's top steel exporter is seeking to expand its overseas sales to earn more foreign currency which the metallurgical industry badly needs to repay foreign debts and to import iron ore.

Before 1997, the metallurgical industry will repay about \$300 million in foreign loans which have been used for its development during the past 10 years.

Also, China needs to import about 10 million tons of iron ore every year since it is short of this resource.

And the government won't increase foreign exchange to the industry since the country's total foreign debt currently stands at \$40 billion.

"Although every year we need to import steel, we are selling our steel abroad," said Zhou Xuelai, vice-president of the China Metallurgical Import and Export Corporation.

He said his corporation is planning to earn \$250 million from its overseas sales this year, compared with \$240 million last year.

"And we hope to increase our export value by \$200,000 annually during the coming five years to a total amount of \$300 million in 1995," Zhou said.

Zhou said that his corporation this year will concentrate on the expansion of the export of finished steel products such as steel rope and stranded wire.

The export value of such products is expected to increase from last year's figure of \$6 million to \$10 million.

Meanwhile, he said, the corporation is also seeking to expand the export of special steel including spring flat steel, bearings steel and high speed tool steel.

"We are also trying to sell more metallurgical machinery abroad this year," Zhou said.

He said his corporation is in contact with Thailand regarding the sale of such machines.

China mainly sold steel as construction material to Hong Kong, Macao, Singapore, Taiwan, South Korea and Japan.

Because of the austerity policy, the country reduced spending on capital construction by \$241 million, leading to a sharp drop in domestic demand for this kind of steel.

"That will leave more goods for export," Zhou said, "meanwhile, the country has a surplus of steel plate which is also a major export item."

To promote its products, Zhou said his corporation is planning to attend more trade fairs.

Last month, the corporation held a metallurgical export goods fair in Hong Kong. The contracted value from the six-day fair has reached more than \$60 million.

This month Zhou will lead a group to the Guangzhou Fair and has hopes that the contracted value will reach \$80 million.

Zhou's corporation is also planning to attend the China Export Commodities Exhibition to be held in Tokyo during July and August.

Macao Electric Company Considers Joint Power Venture

OW1604120890 Beijing XINHUA in English
1030 GMT 16 Apr 90

[Text] Hong Kong, April 16 (XINHUA)—The Macao Electric Company (MEC) is considering building power stations as joint ventures with China instead of buying power from Hong Kong to reduce costs, the SOUTH CHINA MORNING POST reported here today.

It is reported that Macao originally planned to buy electricity supplied by Lamma Island of Hong Kong every year for 15 years which will cost 600 million HK dollars (about 77 million U.S. dollars).

The chairman of MEC's Administrative Council, Luis Lucena Ferriera, said the project would cost more than generating the power locally.

For that reason, he said, the MEC would build power plants on a joint-venture basis with China to meet the increasing need for electricity after 1994.

The MEC's capacity is expected to reach its maximum in four years, while demand is expected to rise by 10 percent annually, the paper said.

Ferriera admitted there were difficulties finding land to build a new plant in Macao on its nearby islands, so the company was studying the feasibility of building a power plant in a "neighboring area" in China.

At present, about five to 10 percent of the power consumed in Macao is fed from China. Increasing the power supply from China is another possible means to deal with the power shortage.

French Firm To Build Guangdong Hydraulic Power Plant

HK1904023190 Hong Kong HONGKONG STANDARD (BUSINESS STANDARD) in English 19 Apr 90 p 3

[Text] French state-owned utility Electricite de France has been awarded the contract to build a 1200 MW [megawatt] pumped storage power station near Conghua in Guangdong Province—the first hydraulic pumped storage station in China.

Electricite de France (EDF) is also involved in the construction of China's first nuclear power station in Daya Bay.

China Light & Power is a partner in the power station at Conghua, 95 kilometres northeast of Guangzhou. The company will buy 50 percent of the station's output, which is expected to meet anticipated peak demands for electricity in Hong Kong during the early 1990s.

It will provide 600 MW of additional generating capacity for China Light for a 40-year period starting from 1993-94. "The pumped storage station in Conghua is intended to complement Daya Bay, as it contributes to optimise energy produced by the nuclear power plant, in a daily cycle of alternating pumped storage and turbine generated power," said Mr. Vincent de Rivaz, Area Manager of EDF International.

"One of the major considerations for the Chinese in choosing the French model has been the Western style of management for the power station, which reduces the management structure from about 2,000 people for a 200 MW station to less than 100 for a 1200 MW power station" said Mr. de Rivaz. The pumped storage station represents the 17th contract won by EDF International in China since 1985. Most of these contracts concern hydroelectricity.

Guangdong Export Volume Increases Rapidly

HK1904135390 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 15 Apr 90

[Text] In the first quarter of this year, Guangdong's export volume witnessed a rapid increase and reached \$1.83 billion, a 25.7 percent increase over the same period last year.

Thanks to deepening the campaign aimed at improving the economic environment and rectifying the economic order, Guangdong's foreign trade orders and economic environment have shown substantial initial improvements this year.

This year, Guangdong has clearly defined the specific responsibilities of foreign trade companies and published a list of export-oriented products, thus putting an end to the disorder in the foreign trade circle.

Moreover, lowering the renminbi exchange rate has also enabled Guangdong's foreign trade departments to have sufficient funds.

Shanghai Meeting Discusses Improving Investment Climate

90OH0440A Shanghai WEN HUI BAO in Chinese 11 Feb 90 p 1

[Article by staff reporter Chen Wei (7115 1919): "How To Further Improve Shanghai's Investment Climate"]

[Text] **Editor's Note:** Since we started the discussion on "how to further improve Shanghai's investment climate" on 12 December last year, the public has responded strongly, and many people, Chinese and foreigners, have expressed their views.

Recently the Shanghai Municipal Foreign Investment Work Commission called a meeting of relevant functional departments to discuss ways to improve Shanghai's investment climate. Through the discussion, a common understanding was reached on two points. First, the improvement of Shanghai's investment climate is a systems engineering task involving the entire society and requires the joint efforts of all concerned. Second, improving the investment climate is a long process, and we must start to work now and work with perseverance. After the current discussions, we will continue to report on new developments, new experiences, and new situations about improving Shanghai's investment climate and the three kinds of partially or wholly foreign-owned enterprises. We ask for your continued support. [end editor's note]

Since the article "Troubles Usually Encountered by Those Doing Business in Shanghai," by Mr. Eoghan McMillan, advisor to the Mayor's International Entrepreneurs Consultative Conference of Shanghai Municipality, was published by this paper on 12 December last year [article appears in JPRS-CAR-90-021, 20 Mar 90 pp 50-53], like "a pebble stirring up thousands of ripples,"

people in all walks of life have joined the discussion on how to improve Shanghai's investment climate. Some concerned functional departments of Shanghai took the questions raised in Mr. Mai Ruiheng's article very seriously. The Shanghai Municipal Foreign Investment Work Commission invited various competent functional departments to a special meeting a few days ago to discuss the important question of how to improve Shanghai's investment climate.

Present at the meeting were representatives of Shanghai's Foreign Economic Relations and Trade Commission, Agricultural Commission, Labor Bureau, Personnel Bureau, Public Security Bureau, Customs, Supply Bureau, Price Bureau, Post and Telecommunications Office, Machine-Building and Electrical Industry Bureau, Housing Bureau, Zhabei District, Xuhui District, Putuo District, Luwan District, Huangpu District, Nanshi District, Baoshan District, and the Minhang, Hongqiao, and Caohejing Economic and Technological Development Zones.

They unanimously pointed out that Shanghai has done a lot of work to improve the investment climate and achieved remarkable success in the past few years. However, as reflected in Mai Ruiheng's article, there are indeed many problems in Shanghai's investment climate. Some joint ventures are bogged down in the screening and approval process by government red tapes and inefficiency. Because there is no labor market to help people move on to new jobs, some workers and staff member of old enterprises do not want to leave after these enterprises become joint ventures, causing personnel problems for the joint ventures. Quite a few industry bureaus do not include the three kinds of partially or wholly foreign-owned enterprises in their supply lists, making it difficult for these enterprises to obtain the needed materials. Some of the three kinds of partially or wholly foreign-owned enterprises in the Minhang Development Zone have no place to dump their industrial waste. Also discussed at some length were the question of funds and loans for joint ventures, the "property" question, and the wage question for workers and staff members of the three kinds of partially or wholly foreign-owned enterprises. The representatives at the meeting said that the WEN HUI BAO's discussion on improving Shanghai's investment climate will certainly goad them to do their work better on the basis of what has already been accomplished.

Ming Zhicheng [2494 1807 3397], vice chairman of the Shanghai Municipal Economic Commission, sent his opinion in writing during the current discussion. He said: Since the establishment of the Foreign Investment Work Commission on 10 June 1988, the municipal government has made it the sole authority to deal with foreign investment, simplified procedures, and increased work efficiency. However, improving the investment climate is in itself a huge systems engineering project, which includes many small systems and sub-systems and involves both tangible and intangible conditions. To achieve satisfactory results in improving the investment

climate, all departments, systems, and others concerned must support each other, closely cooperate, and act in coordination according to procedures and requirements prescribed by relevant laws and regulations.

At the meeting, Ye Longfei [0673 7893 5777], permanent vice chairman of the Municipal Foreign Investment Work Commission, gave a talk about this year's work to improve Shanghai's investment climate in the light of the existing problems.

—A grievance network for foreign-funded enterprises will be set up. A grievance office should be set up in every government organization involved in examining and approving foreign investment projects and in municipal public utilities coordinating departments to actively serve the foreign-funded enterprises. A coordinating center will be set up for the entire city, and its office will be located in the Foreign Investment Work Commission.

—Work will continue to improve the investment climate of the Minhang and Hongqiao Economic and Technological Development Zones, the new Caohejing Technological Development Zone, and to open smaller new industrial districts on a trial basis. The municipal government is currently considering plans and relevant policies on the development of a new industrial district in Pudong, including the transfer of land use rights and establishment of foreign banks.

—Efforts will be made to further streamline foreign investment administration so that the work can be handled by a single office, through a single window, and with a single chop. At the same time, guidance and control over the work of the various districts, counties, and bureaus in attracting foreign capital will be strengthened to provide convenience for foreign firms, simplify procedures, and raise the quality standard of foreign investment projects.

—A responsible project personnel system will be established. After a firm project proposal is made, the relevant bureau should start to form a negotiating team and provide training for the negotiating personnel to increase their competence.

—Continued efforts will be made to improve the economic laws and regulations concerning foreign nationals, clearly define the proper relationship between supplementary and primary laws and between standard documents and laws and regulations, and make sure that the "Law on Chinese-Foreign Joint Ventures," "Law on Chinese-Foreign Contractual Joint Ventures," and "Law on Wholly Foreign-owned Enterprises" are really implemented.

—Management will be strengthened on the supply of materials for foreign-funded enterprises. Major raw and semifinished materials to be purchased in China should be considered and approved, and supply channels should be determined, at the same time the feasibility of a project is being examined and

approved. For small quantities of raw and semifinished materials, the supply departments should take the initiative to serve the foreign-funded enterprises by making these materials available through trade fairs, special windows, and so on.

First Quarter Exports Up in Shanghai

OW1604141290 Shanghai City Service in Mandarin
1100 GMT 7 Apr 90

[Text] Exports through Shanghai's ports totalled U.S. \$1.132 billion in the first quarter, up 8.08 percent over the same period last year.

An official of the municipal foreign economic relations and trade commission noted that there were three characteristics in Shanghai's export situation during the first quarter. First, export volume increased monthly, which contrasts sharply with falling exports during the first quarter of last year. Second, the increase in exports by industrial and trade companies and private enterprises was markedly higher than that of specialized foreign trade companies. Third, volume of export transactions was higher than the actual volume of exports. In the first quarter, the city concluded export transactions worth U.S. \$160 million, up 14.03 percent over the same period in 1989 and six percent higher than the actual export growth. This has set a rather good foundation for fulfilling this year's export quotas.

The official pointed out that the city's first quarter export performance was good. However, due to negative growth in exports in the first quarter of 1989, the export figure for the first quarter of 1990 still slightly lags behind the corresponding 1988 figure. The city still faces a difficult task in the months ahead if it is to fulfill this year's export quotas.

Sichuan To Import Spanish Telephone Equipment

OW2004223290 Beijing XINHUA in English
1444 GMT 20 Apr 90

[Text] Chengdu, April 20 (XINHUA)—Southwest China's Sichuan Province signed a contract here today to import program-controlled telephone exchanges from Spain with Spanish Government loans totalling 49.9 million U.S. dollars.

Zhang Haoruo, governor of the province, M.A. Canaleje, president of Alcatel Standard Electrica S.A. of Spain, and Fernando Varela, commercial counsellor of the Spanish Embassy, attended today's signing ceremony.

The program-controlled telephone exchanges will have 193,000 urban lines and 7,560 long-distance lines, the largest program-controlled telephone project imported by China. In addition to telephone services, the facilities will also provide telegram, fax, data communications and computer network services.

The switch boards will be installed in 39 cities and seats of prefectures and counties. The whole project will be completed by 1994, when the number of urban telephones in the province will double to 400,000 lines.

ECONOMIC ZONES

Qingdao Surpasses Export Target

90CE0002A Beijing GUOJI SHANGBAO in Chinese
6 Feb 90 p 1

[Article by Lian Hua (5114 5-78): "Qingdao Over-Fulfills Export Target"]

[Text] Qingdao over-fulfilled its export target in 1989, pushing its export work to a new level. For the year as a whole, self-managed export transactions reached \$415 million, with actually completed transactions worth \$293 million, 117.67 percent of the contracting plan for the year. It earned \$254 million in foreign exchange, up 25.5 percent compared to the preceding year, and turned over to the state \$114 million in foreign exchange.

Qingdao's export work last year was characterized by the following. First, the export mix continued to be optimized, with the share of industrial manufactured goods as a portion of total exports rising four percentage points over a year ago. Second, new headway was again made in the drive to develop new products. Altogether 143 new products were developed during the year, increasing foreign exchange earnings by over \$10 million. The municipality's five counties and two districts supplied export merchandise worth 1.025 billion yuan in all, up 111 percent over the preceding year.

Foreign Investment Attracted to Shantou

90CE0002A Beijing GUOJI SHANGBAO in Chinese
15 Feb 90 p 2

[Article by Weng Xiaoqing (5040 1420 1987): "Shantou Increasingly Attractive to Foreign Investors"]

[Text] This past January alone the Shantou Special Economic Zone [SEZ] achieved progress of a breakthrough nature in its drive to attract foreign capital. A total of 11 foreign-funded projects were approved, with a combined investment of \$34.58 million, of which \$33.94 million would come from foreign investors, up 399 percent and 639 percent, respectively, over the same period last year.

Even as it continued to implement a range of preferential policies already on the books aimed at attracting foreign investment, the Shantou SEZ has taken additional measures to give foreign investors even more favorable terms so that the latter would feel it is profitable and promising to invest in the zone. The measures include lowering land prices appropriately and allowing land payments to be made in instalments; lowering rents on and sale prices of newly built factory buildings by five percent from the levels a year ago; streamlining and revamping all kinds of

administrative and operating charges and fees after a general review; permitting the transfer of the property right of some production enterprises to the foreign investor in whole or in part and the conversion of Chinese-funded enterprises into Sino-foreign joint ventures, Sino-foreign contractual ventures and wholly foreign-owned enterprises; and speeding up and simplifying the project examination and approval procedures as well as registration formalities.

In addition, the Shantou SEZ "goes out and invites in" by launching a campaign to attract foreign investors systematically, selectively, and in a targeted manner in accordance with a plan. Between late last year and early this year, the leaders of the zone led delegations to Singapore, Thailand, Hong Kong, and Macao to discuss business deals.

To provide investors a good investment environment and beef up capital construction, the zone invested a total of 520 million yuan last year, about 70 percent of which were spent on infrastructure-related or production projects. Of the 560,000 square meters of factory space under construction last year, 320,000 square meters were completed, solving the problem of factory space shortage in recent years. Rapid progress has also been made in the development of energy, transportation, and telecommunication facilities. An emergency water supply station, a sewage treatment plant, and a fuel power plant were built last year, 2,000 automatic telephones were added, and 10 roads were built or continued to be built.

Beginning last September, the zone has been purchasing 100,000 kilowatt-hours of electricity from Hong Kong daily to narrow the supply-demand gap in the zone and ensure that there is enough electricity to meet production, which is a powerful attraction to foreign investors. Moreover, the zone takes great pains to integrate the attraction of foreign capital with the improvement of the economic environment and the rectification of the economic order in order to steer foreign capital into the proper direction and make the foreign investment mix even more rational. Of the 11 projects approved in the first month this year, the number of wholly foreign-owned projects has increased markedly and the share of foreign investment has risen sharply, to 98 percent. Foreign investment is now being diversified and will be distributed among such industries as the chemical industry, papermaking, auto parts, glass, and ceramics, in a departure from the past when it was concentrated in the garment industry.

Shenzhen To Sell 4 State-Owned Factories

OW2204183390 Beijing XINHUA in English
1346 GMT 22 Apr 90

[Text] Shenzhen, April 22 (XINHUA)—Shenzhen City has decided to sell four state-owned factories, a spokesman for the city government's property right transfer office said here today.

The four factories producing furniture and metal products are all under the Shenzhen City Decoration Corporation. Their combined fixed assets are valued at 11.99 million yuan.

The spokesman said any Chinese or foreign enterprise or individual who wishes to buy the factories may contact his office between April 23 and May 30.

Shenzhen's state-owned fixed assets total 16.6 billion yuan. But a number of the state-owned firms are suffering from losses due to poor management.

So far six state-owned firms have been sold and another four have sold part of their property. The buyers include Chinese enterprises and foreign businesses.

A leading official at the city's economic structural reform commission said that the transfer of property rights is aimed at adjusting the structure of state-owned fixed assets and bringing about better economic returns.

Analysis of Shenzhen's Shatoujiao Bonded Industrial Zone

90OH0426A (Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese
No 4, 15 Jan 90 pp 28-29

[Article by reporter Wang Ta-chih (3769 1129 1807): "'A Special Zone of a Special Zone,' Mainland China's First Bonded Industrial Zone—The Shatoujiao Bonded Industrial Zone"]

[Text] Situated in the Shenzhen Special Economic Zone [SEZ] on the scenic shores of Dapeng Bay, the Shatoujiao Bonded Industrial Zone represents a further new step in the Mainland China establishment of SEZ's and its opening up of 40 coastal cities. It is China's first bonded industrial zone, and since it is being established within a SEZ, it can truly be termed "a SEZ of a SEZ."

It Has Displayed Its Competitive Strength for Two Years Already

The Shatoujiao Bonded Zone has its own special features. After having been approved by customs and before going through procedures for paying taxes, foreign goods can be stored, processed, and reexported from the bonded industrial zone. It differs notably from other industrial zones. Its developmental models are multifunctional and comprehensive; it has drawn on the varied experience of more than 200 contemporary bonded industrial zones around the world and selected the advantages from each; and it has focused on the experience of third generation export processing zones of concentrating technology and funds, thereby creating a model for bonded industrial zones in China.

Shatoujiao Bonded Industrial Zone gives priority to developing high technology products. It uses the industrial zone to transform China's internationally advanced inventions, creations, and latest technology into products for introduction on the international market and

imports internationally sophisticated technology and sells back products from it to foreign markets. Or, it assimilates the technology and introduces it to the interior of the country. It is also jointly developing new technologies with foreign financial consortiums for the highly efficient processing of exports. There is a big market demand for high-grade technology, and export processing items of good economic efficiency are brought into the bonded industrial zone. Bonded storage facilities provide storage, transportation, and loading and unloading services for enterprises within the bonded industrial zone. They also provide storage and transportation services for goods in transit for foreign businesses. To meet the needs for the circulation of international capital, the bonded industrial zone will, when conditions are ripe, set up neutral banks of analogous financial companies for such services as currency deposits and loans, international remittances, international financing, and interest deducted guaranteed leases. Based on the needs of foreign developments, it will also use such means as bond and stock markets in order to actively develop export trade. Products of the bonded industrial zone and internationally advanced industrial products will for a long time be presented in replacement exhibitions. At the same time, when orders are received, they sell as they buy or, through the futures business, they engage in speculative switch trading.

Shatoujiao Bonded Industrial Zone, which has attracted large amounts of foreign funds, is using the export trade development strategy of raising the quality of its products to a fairly high level. In the past two years, 84 million yuan (renminbi) have been put into capital construction, encompassing an area of more than 270,000 square meters. At present, construction on more than 80,000 square meters of factory buildings and dormitories has been completed, and 191,000 square meters are still under construction. A portion of the factory buildings will soon be turned over for use. As for overall capital construction planning, there is a basic plan for land use, water and electricity, public road construction, factory buildings and residences, recreation facilities, and waste disposal. It is designed and constructed to be pleasing to the eye, in good taste, economical, utilitarian, and in compliance with the needs of foreign businesses, modernization, and future developmental trends.

Because of the investment climate that has been established, more than 500 foreign commercial firms have come to the bonded zone to look it over and for negotiations, almost 70 intend to make investments, and 32 have obtained approval to set up factories. Of these, 26 are Sino-foreign joint ventures, four are under the sole proprietorship of foreign commercial interests, and two are domestically linked. Investments of HK\$317 million have been agreed upon. Thirteen firms have already formally begun operations with an actual total investment of \$12.558 million [U.S. dollars]. Investors have come from such countries and regions as the

United States, Japan, Canada, Holland, Belgium, Thailand, South Korea, Singapore, Taiwan, and Hong Kong as well as from some of China's stronger and larger enterprises. These investors mainly produce technically high-grade products, including electronics, textiles, clothing, meters, instruments, copper and aluminum wire rods, fine industrial chemicals, and new materials. More than 90 percent of the products are exported to foreign markets. By October, the total monthly output value had risen to more than 10 million yuan (renminbi). The annual industrial output value for 1989 came to 85 million yuan renminbi, earning more than \$HK130 million in foreign exchange. With foreign investors efficiently earning legal profits and investor confidence increasing, the bonded zone's attractiveness and competitiveness are becoming stronger.

The Preferential Policy To Attract Foreign Funds

Shatoujiao Bonded Industrial Zone has within two years been able to bring in a quantity of capital, technical equipment, and scientific management experiment, and economically it has been relatively efficient. One of the important reasons for this has been that the investors have been able to see the advantages of the various special preferential policies. According to the "Interim Administrative Provisions Pertaining to the Shatoujiao Bonded Industrial Zone in Shenzhen," which were promulgated by the Shenzhen City People's Government on 1 July 1988, enterprises can, after they pay their taxes on it, decide for themselves how to dispose of foreign exchange income earned from their operations. The assets of foreign businesses are free from nationalization, and these enterprises can receive loans directly from abroad and issue bonds and stock certificates abroad. Their stock certificates can be sold both domestically and abroad. Machinery and equipment and construction equipment and materials needed to be imported for construction work and for production in the bonded zone as well as a reasonable amount of office supplies and a reasonable number of vehicles needed to be imported to carry out work related to product exports are admitted without customs levies and without industrial and commercial unified taxes. Products of the bonded zone destined for sale abroad, unless their export is subject to some special state provision, are not under any licensing restrictions. Products and semifinished products purchased outside the zone for processing or assembly and then reexported for sale abroad receive the same preferential treatment. Buildings within the bonded zone can be freely leased or rented, transferred to other parties, and mortgaged (both domestically and abroad). However, the receiving parties must be firms that are setting up enterprises in the bonded zone.

The bonded zone has put into effect highly efficient mechanisms for managing operations. It has a "unified" management system. A management committee has been set up to "concentrate authority, reduce personnel, unify responsibility and authority, and simplify procedures." Externally, the management committee handles relations with the government; internally, it manages the

entire bonded zone. It has the authority to examine and approve applications for establishing enterprises in the bonded zone and the authority to examine and approve and handle procedures pertaining to bonded zone enterprises as concerns their planning, capital construction, environmental controls, industry and commerce, taxation, outside contacts, foreign trade, land, buildings, labor, personnel, water and electricity, and communications. It is a "single-stop facility." All administrative procedures between the management committee and the investors are handled in one place and disposed of at the same time. It is "coordinated service." After an enterprise is set up, the bonded zone provides a complete array services, including water and electricity, communications, fixtures for the factory buildings, equipment maintenance and repairs, health facilities, security, hiring of personnel, and handling of customs, as well as basic life support services. The new management mechanism has reduced structural layers and improved efficiency. Despite the multiplicity of the changes in procedures and the difficulty and slowness in effecting them, they still won the approval of the investors. It actually only took the Huafo Textile and Silk Cloth Limited Liability Company, the first enterprise to build a factory in the bonded zone, five days from the time it first submitted its application report until it obtained an operating license. (The specified time for this is 14 days.) It was thus able to begin enterprise production very fast.

From the bonded industrial zone chief to staff personnel and employees, they are all service personnel working to develop and build the zone. They are highly dedicated to preventing obstacles from standing in the way of the guest businesses becoming established. The bonded zone leadership emphasizes that, irrespective of if it is a joint venture, a solely owned proprietorship, or a contractual joint venture, they should all be treated as if they were one's own enterprise. They sincerely want them all to be economically efficient and to be able to earn more money. As for inefficient enterprises, the zone leadership enthusiastically helps them overcome their problems. These new operating mechanisms, which conform to international practice, have created excellent "intangible conditions" in the zone and demonstrate the great vitality of this two-year old facility.

Gratifying Earnings Have Increased the Attractiveness for New Investment

In the process of simultaneously being involved in construction, the introduction of materials, and in production, the bonded industrial zone has been extremely attentive to carrying out its work with speed and efficiency. The materials that are introduced undergo a selection process whereby their constituent elements are studied and they are analyzed for feasibility. All are items in high demand on the international market, of high technical quality and with good economic benefit such as electronics, textiles, copper and aluminum wire rods, and fine industrial chemicals. At present the makeup of the industrial structure and the product mix is quite rational. In the process of organizing their

production, enterprises have strengthened their management mechanisms. Excellent economic results have been obtained through improved labor productivity and enhanced product quality and because of the definite competitiveness of the export products on the international market. The Shenzhen Fuhua Industrial Limited Liability Company, the first Sino-foreign joint venture in the bonded zone, in merely one year's operation has taken in three-fold what it invested. This type of investment return is not only unprecedented in China, it is also rarely seen in similar processing zones abroad. Because investors can earn a legal profit on their investment in a short time, investor confidence is strengthened. The Fuhua Company has this year increased its investment by HK\$25 million. Because the hosts of the bonded industrial zone take care of the problems of the guest firms, investors have a great deal of faith in the zone. The Hongwang Nonferrous Metals Company completed the procedures for registering its production in a short period of time. However, because of the great difficulty it had in installing some special type of machinery, it could not formally begin production. The bonded industrial zone has a policy of trying to find a solution for guest firms. On the one hand, it deferred implementing the investment agreement plan because of the impossibility of the factory beginning production, calculating a new date based on when the newly completed factory could go into production. On the other hand, it pulled strings and made contacts so that a small-sized joint venture company could be formed that could operate while the factory was being readied. Deeply touched, the foreign businessmen declared that, whereas the bonded zone had handled the registration procedures the same as they would have been handled abroad, the zone's resolution of the firm's difficulties was handled even better than had it been abroad. The Hongwang Company originally planned to invest several million Hong Kong dollars. With its single product factory in production, it now has decided to supplement its investment in the bonded industrial zone by nearly \$100 million [U.S. dollars] to establish a comprehensive transnational group of enterprises.

Seeking Development Through Exploration

The construction and development of the bonded zone has met with several problems. China's present economic austerity and the fierce competition of the international market have confronted the zone with serious challenges. Because the jurisdiction over the import and export of goods, over personnel, and the import and export of funds has still not been relaxed, there are still some disparities, despite that an international exports processing zone is involved. For example, there are still certain licensing restrictions for product exports, and the transport of vehicles between Hong Kong and Shenzhen are still subject to quota restrictions. At the same time, the bonded zone's infrastructure and management mechanism still need further improvement. This is especially true for constructing industrial factory buildings and

storage facilities so that a base for producing exports can be set up as soon as possible.

The Shatoujiao Bonded Industrial Zone is also developing prospects abroad. Firms from within the zone have crossed the seas to the United States to open ports (kaibu 7030 1009), where they plan to set up industries with their own labor. There is a plan, in cooperation with large foreign consortiums, to transplant the entire Hong Kong system of economic management and its legal system onto a small piece of land in the bonded zone to gradually pursue the possibility of bringing the zone up to international standards. When conditions are ripe, export processing zones will be opened abroad in cooperation with foreign consortiums.

On Christmas, 1989, reporters participated in "discussions of the Shatoujiao Bonded Industrial Zone developmental strategy." Experts and scholars at the meeting discussed how to bring the bonded zone up to international standards for similar industrial zones, how to exploit the present conditions and facilities more efficiently to enable investors to achieve even greater economic performance, how to accelerate the building of the bonded zone, and how could Hong Kong contribute to resolving these issues after 1997. Under the Christmas lights, the reporters witnessed the colorful celebration of the bonded zone's second anniversary and the singing of the "Song of the Bonded Zone" by Wang Mulong (3769 2606 7893), chief of the Shatoujiao management zone and chairman of the bonded industrial zone management committee, along with workers and staff personnel.

The builders of Shatoujiao are indeed the composers of new music in reform and the opening up to the outside. In the near future, the international port of Lantian, which is right next to the bonded zone, will be finished and open for navigation, and the development of the Shatoujiao Bonded Industrial Zone will truly become like a giant roc soaring over the world.

Foreign, Taiwan Investment Up Sharply in Xiamen

90C 1 00012C Beijing GUOJI SHANGBAO in Chinese
6 Feb 90 p 1

[Article by Chen Guanggang (7115 0342 0654): "Xiamen Excels in Attracting Foreign, Taiwan Capital"]

[Text] As far as the attraction of foreign and Taiwan investment is concerned, the Xiamen Special Economic Zone (SEZ) had its most outstanding year ever in 1989. A total of 225 foreign investment projects with a combined price tag of \$844 million were approved, up 25 percent and 157 percent, respectively, over a year ago. Projects financed by Taiwan investors rose 50 percent compared to the previous year. As of late 1989, 718 foreign- and Taiwan-funded projects were approved, with a total investment of \$2.377 billion. Already 358 enterprises of the three capital sources have gone into operation and are doing well in terms of production.

Last year saw an improvement in the quality of foreign-funded projects, with an increase in the proportion of the "three types" of projects (production-type, export-type, and technologically advanced type). Production-type projects accounted for 91.6 percent and the average export rate was 83.9 percent. Xiamen has succeeded in attracting a large number of technologically advanced projects, further rationalizing its investment mix. There has been a notable increase in investment in the infrastructure, in raw materials industries, and in other industries consistent with the adjustment of the industrial structure. Among projects approved last year was one in the raw materials industry worth \$200 million. With a projected annual output of 140,000 tons of polyester slice and its products, it is the largest project in Xiamen history. Last May the State Council approved the establishment of Xinglin and Haicang as Taiwan investment zones, creating good sites to attract even more Taiwan capital. The zone has also gone in for geographical specialization. Based on the areas of development and the distribution of labor, the municipal government and other pertinent departments have been encouraging foreign and Taiwan investors to build technology-intensive plants within Xiamendao while shifting as much labor-intensive operations as possible to the suburbs in Tongan County.

Foreign investment accounted for 91 percent of all approved Taiwan and foreign investment projects last year, the actual amount of foreign capital utilized up 372 percent compared to a year ago. This shows that the zone's strategy of using relatively limited matching funds to attract as much foreign capital as possible is paying off. The municipal government has even been encouraging foreign and Taiwan investors to set up wholly foreign- or Taiwan-owned enterprises. As many as 136 wholly foreign and Taiwan-owned enterprises were approved last year, with a total investment of \$460 million. To utilize land resources to the full, the government has adopted a policy of leasing or selling land. One important measure to attract large-scale foreign investment is to encourage foreign investors to develop large parcels of land in the form of industrial parks, such as the Tianan Industrial Park and Tongji Industrial Park approved last year. With a combined area of four square kilometers, they make it possible for the Xiamen SEZ to expand the utilization of foreign capital.

Foreign- and Taiwan-funded projects approved in 1989 already showed a shift from labor-intensive to technology-intensive operations, from small-scale single-item projects to large-scale comprehensive projects, from simple assembling and processing to industry-wide manufacturing. Notable among the foreign-funded projects last year were a few turning out leading products and accessory parts and components (eg., domestic electrical appliances) that came in their wake. This trend shows that foreign investors are bullish on Xiamen's investment climate. Institutional and industrial investment will increase by the day.

After several years of development, enterprises of the three capital sources in Xiamen generated even more

significant social and economic benefits for the municipality last year. The industrial output value of foreign funded enterprises rose to 2.633 billion yuan, 700 million yuan more than a year ago. It represented 18.3 percent of the municipality's gross industrial output value, up six percentage points over 1988. Revenues derived from foreign economic transactions amounted to almost 200 million yuan, a 202 percent increase over a year ago and 24.45 percent of the city's total revenues.

An overwhelming majority of the enterprises of the three capital sources made a profit last year, so there is an overwhelming trend toward expansion. This year 55 enterprises have increased investment, pouring in an additional \$83.36 million in all.

Most investors arrive armed with foreign orders in one hand and orders for foreign raw materials in the other. According to statistics, the industrial deliveries of enterprises of the three capital sources amounted to 1.584 billion yuan, 80 percent of the total value of the entire city's industrial exports deliveries.

TRANSPORTATION

Sino-Soviet Trade Outlet Opens in Heilongjiang

SK1504121790 Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 12 Apr 90

[Text] With the approval of the Ministry of Foreign Affairs, on 28 March Dongning City officially opened as a Sino-Soviet trade outlet. The Chinese Government has decided to open Dongning as a vehicle transportation outlet. Extending vehicle transportation from the city to inland areas will be discussed and decided on by relevant departments of the two countries after conditions are ripe.

AGRICULTURE

Agricultural Bank Extends 'Special Loans' to Provinces

OW1304113990 Beijing XINHUA in English 1056 GMT 13 Apr 90

[Text] Beijing, April 13 (XINHUA)—The Agricultural Bank of China has made special loans to help provinces improve land. Henan and Shandong branches of the bank alone had granted localities 140 million yuan by the end of last year to help develop the Huang-Huai-Hai Plain in north China.

The plain, stretching across Henan, Shandong, Anhui, and Jiangsu Provinces, is one of China's most important production bases for grain, cotton and edible oil. Much of the area is low yielding land which can be improved.

The State Council decided to conduct comprehensive development in the area in 1988 to feed the ever-increasing population.

Henan and Shandong Provinces have the largest amount of low yielding land in this area. The branches of the bank in these two provinces have made special loans to build irrigation projects, improve land and plant trees.

Last year, the Henan branch helped improve irrigation on 140,000 hectares of land and popularize 600 items of applied technology, and the Shandong branch helped improve 240,000 hectares of low yielding land.

Government To Increase Loans for Forestry Work

OW1304112190 Beijing XINHUA in English 1049 GMT 13 Apr 90

[Text] Beijing, April 13 (XINHUA)—China has decided to grant an additional 200 million yuan in forestry loans, an increase of 33 percent over 1989, a Forestry Ministry official said today.

The new discount loans, together with 600 million yuan originally scheduled, will be used to plant more trees, especially fast growing trees with economic value, restrict trees cutting, tend forests and help forestry enterprises weather the present difficulties.

According to the latest survey, China has 125 million hectares of forests with 9.14 billion cubic meters of wood. The survey shows that the nation's forest areas has grown in the past few years. Forest coverage increased from 12 percent in 1981 to 12.98 percent in 1989. However, excessive cutting has resulted in a sharp decrease in woods.

China is trying to develop fast growing forests and has devised regulations to strictly restrict tree cutting.

In addition to loans, China allocates funds every year to carry out special greening projects such as the green shelterbelts in the 13 northern provinces and the eastern coastal provinces.

Statistics on Storage of Social Goods in February

HK1204113690 Beijing CEI Database in English 12 Apr 90

[Excerpt] Beijing (CEI)—Following is a list of the storage of social commodities in Feb. 1990, according to CSICSC [China Statistics Information Consultancy Service Center].

Item	Unit	Volume	
		2/7	2/89
grain	10,000	8,973.6	7,646.0
edible veg. Oil	10,000t	270.6	244.1
pig and			
aquatic prod.	10,000t	24.5	29.3
salt	10,000t	453.8	250.9
sugar	10,000t	291.6	276.0
cigarette	10,000c	423.9	363.1

Item	Unit	Volume	
		2/7	3/89
liquor			
cotton/synthetic blended fabric	100m M.	11.6	13.8
synthetic fabric	100m M.	4.0	4.8
wool fabric	10,000m	11385.7	13622.0
silk and satin	10,000m	39138.7	46846.2
[passage omitted]			

World Bank-Funded Water Diversion Project in Northwest

OW2603115490 Beijing XINHUA in English
1050 GMT 26 Mar 90

[Text] Lanzhou, March 20 (XINHUA)—Construction of a huge water diversion project began recently in north-west China's Qinghai and Gansu Provinces after four years of preparation.

The project will divert water from the Datong River to the Qinwangchuan Basin in Gansu with an 87-km trunk canal and 33 tunnels with a total length of 75 km.

The project will cost 1.06 billion yuan, including 123 million U.S. dollars in World Bank loans, a project official said.

When the project is completed in March 1992, it will irrigate 57,300 hectares of farmland and supply drinking water for 230,000 people in central Gansu Province, the official added.

Cereal, Food Imports for March

HK1904104990 Beijing CEI Database in English
19 Apr 90

[Text] Beijing (CEI)—Following is a list showing China's imports of cereals, oils and food in March, 1990, according to the primary statistics released by the General Administration of Customs.

Item	Unit	Mar	Mar 1989
Cereals	ton	1,441,849	1,151,071
Wheat	ton	1,326,973	1,044,123
Soybean	ton	27	80
Sugar	ton	104,271	91,523
Animal oils and fats	ton	2,117	10,275
Edible oil	ton	52,922	58,168
Other oils	ton	79,306	27,867

March Exports of Cereals, Oils, Food

HK1704153990 Beijing CEI Database in English
17 Apr 90

[Text] Beijing (CEI)—Following is a list showing China's exports of cereals, oils and food in March 1990, according to primary statistics released by the General Administration of Customs.

Item	Unit	Mar.	Mar. 1989
Pig	head	262,165	271,719
Poultry	in 10,000	492	445
Beef	ton	2,038	2,689
Pork	ton	7,385	6,846
Chicken	ton	3,049	2,677
Rabbit	ton	1,229	1,540
Egg	in 1,000	78,862	74,374
Aquatic	ton	37,360	27,981
fish	ton	4,415	3,981
prawn	ton	14,598	8,793
Cereals	ton	470,978	374,485
rice	ton	33,589	11,700
soybean	ton	131,341	69,284
pulses	ton	81,140	29,119
maize	ton	190,069	176,607
Vegetables	ton	61,906	61,952
Fruit	ton	18,564	15,680
orange	ton	3,781	3,847
apple	ton	13,469	7,439
Sugar	ton	64,286	2,315
Canned food	ton	33,037	47,538
pork	ton	4,192	3,539
vegetables	ton	18,913	34,315
fruits	ton	5,116	6,546
others	ton	4,816	3,138
Vegetable oil	ton	15,525	508
Peanut	ton	53,557	32,932

Increased Cereal, Fodder Exports Reported

HK2304054590 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 23 Apr 90 p 2

[By staff reporter Wu Yunhe]

[Text] The cereals and fodder export business looks encouraging this year for the country's leading firm specializing in the food trade.

The Beijing Cereals, Oils & Food Import Export Corporation exported about \$7.44 million worth of cereals and fodder during the first three months of this year, fulfilling 56 percent of the year's target.

The corporation's total exports of various farm products during the first quarter of this year earned \$14.98 million, accounting for 30.3 percent of the target set for it this year by the State, according to Tang Ke, General Manager of the corporation.

The figure represented an increase of 11 percent over the same period last year, he added.

The firm is expected to sell \$50 million worth of farm products on the international market this year, Tang said.

Currently the firm has seven categories of farm products in its export business. They are vegetables, meats, canned food, cereals and fodder, liquors and other soft drinks.

"Our farm products are mainly exported to Japan, Southeast Asian countries and European countries," the general manager said. "We have more than 160 trade partners in 90 foreign countries."

Following market trends, the firm recently purchased meat-supply livestock for export, including horses, cattle, pigs and sheep.

The firm suffered a setback in the second half of last year due to the economic sanctions against China by some Western countries, Tang said.

The firm's export earnings reached only \$48 million last year, \$3 million short of the export target for the past year.

In a bid for a business recovery this year, the firm has adopted some measures to guarantee supplies for export. Long-term co-operation agreements have been established with local farmers and farm produce processing factories, Tang said.

The firm invested more than 8.66 million yuan (\$1.83 million) to jointly set up nearly 20 export-oriented agricultural production bases with local governments across China over the past five years.

It also allocated \$26 million for its farm produce processing factories to introduce advanced technology and equipment from abroad, Tang added.

As a result, the firm has an ample supply of export-oriented farm goods from local farmers and the prices of these goods are quite stable.

31.8 Billion Yuan Provided for Agricultural Loans

OW 1404005990 Beijing XINHUA in English
1510 GMT 13 Apr 90

[Text] Beijing, April 13 (XINHUA)—China's agricultural banks and rural credit co-operatives provided 31.8 billion yuan of loans for agricultural production during the first three months of this year, 8.7 billion yuan more than in last year's first quarter.

During the same period they also provided 49 billion yuan of agricultural materials departments for purchase of agricultural production materials.

It is learnt that, with the funds, commercial departments bought 10.02 million tons of chemical fertilizer, 60,000 tons of pesticide and 55,000 tons of agricultural plastic sheeting in the first two months.

Agricultural loans to be offered this year will focus on promoting application of agrotechnology such as developing fine seeds, construction of agricultural and side-line production bases and long-term agricultural development under the condition of giving priority to grain production.

Progress Reported in Farm Machinery Industry

OW 1404011890 Beijing XINHUA in English
1532 GMT 13 Apr 90

[Text] Beijing, April 13 (XINHUA)—In the first three months of this year some provinces registered a dramatic rise in sales of farm machinery.

The sales volume of agricultural machinery in Hunan Province in February reached 33 million yuan-worth, 40.5 percent up on the figure for last year's same month.

In addition to more investment in agriculture, the state now provides farm machinery manufacturers with more raw materials at favorable prices, and has reduced taxation on farm machinery by 20 percent.

In his report on government work at the recent annual session of the National People's Congress, Chinese Premier Li Peng said that in China's rural areas the contracted household responsibility system should be further implemented.

However, Li said, in some areas efforts should be made to develop appropriate-scale farming and a new collectively-run economy according to the will of farmers.

The development of appropriate-scale farming in some areas has increased the demand for farming machinery.

Local governments and farmers are now paying greater attention to agricultural mechanization, said Lu Zhongmin, director of the bureau of construction and agricultural machinery under the Ministry of the Machinery and Electronics Industry.

Jilin, one of China's major agricultural provinces, has stipulated that farmers should enjoy a 20 percent reduction in prices for large-scale farm machine purchases.

The increased use of farm machinery also cuts down on grain waste, Lu said. Official statistics show that in 1989 China had 80 billion kg of grain wasted, an equivalent of the total production of 20 million ha of grain fields.

Lu said China's agricultural machinery industry has bright prospects as it is now capable of producing 3,300 kinds of agricultural machinery products.

Chen Yaobang Praises Grain Production Bases

OW 2004203650 Beijing XINHUA in English
1515 GMT 20 Apr 90

[Text] Beijing, April 20 (XINHUA)—Most of the commodity grain production bases built since 1983 have

entered their heyday for grain production, Vice-Minister of Agriculture Chen Yaobang said here today.

Addressing a special conference on the construction of commodity grain-production bases, he said the 254 bases produced 75 billion kg of grain in 1989, 4.5 billion kg more than in the previous year, accounting for 53 percent of the nation's total increase.

Apart from the increase in sown areas, Chen said, per unit grain yield is the major reason for the grain output rise. In the past three years the bases produced 289 kg more grain per ha compared with the three years before they were built as national grain production bases, according to the Ministry of Agriculture. The vice-minister said the increase in per unit yield alone in the production bases has earned the country an extra 14.31 billion yuan in three years.

To feed China's huge and increasing population the government decided to improve irrigation facilities, help buy some modern production tools and train farmer-technicians in some counties which are particularly important in grain production. By now, the central government alone has invested 1.4 billion yuan in the project.

Also, a group of agrosience promotion centers and seed-breeding corporations have been set up in the counties and townships. This effort has helped to produce 500 kinds of superior seeds, pushing the amount of improved varieties to 90 percent.

Chen said there is still more potential for the grain bases as 60 percent of the arable land in these counties is low yielding. Meanwhile, some hilly land is waiting to be developed, he said.

National Oil Crop Area

40060045D Beijing NONGMIN RIBAO in Chinese
21 Mar 90 p 2

[Summary] In 1990 the oil crop area will be 162,700,000 mu. The area sown to sunflower, rape, and peanuts will increase 5.8 percent, 5.3 percent, and 3.3 percent respectively over 1989; the sesame area has decreased from 1989.

Anhui Cotton Area

40060045E Hefei ANHUI RIBAO in Chinese
23 Mar 90 p 1

[Summary] In 1990 the planned cotton area in Anhui Province is 4.5 million mu.

Beijing To Raise Prices of Milk, Milk Products

OW2104200990 Beijing XINHUA in English
1142 GMT 21 Apr 90

[Text] Beijing, April 21 (XINHUA)—The Beijing Municipal Government has decided to raise the prices of milk and milk products from May 1.

According to today's BEIJING DAILY [BEIJING RIBAO], the price of a bottle of 250g of fresh milk will go up from 0.21 yuan to 0.27 yuan, and the price of 500g of powdered milk is to increase from 4.42 yuan to 5.70 yuan. And the price of some milk products will also be adjusted.

Wang Huaibao, manager of the Beijing Milk Company, said the raising of the milk price follows the cost increase for raising milk cows and the abolition of government subsidy for milk production. It is meant to ensure the milk supply on the market, he said.

Hainan To Develop Agricultural Areas

OW2004141390 Beijing XINHUA in English
0804 GMT 20 Apr 90

[Text] Haikou, April 20 (XINHUA)—Hainan Province has designated five large areas of land as agricultural development areas to develop tropical plants, fisheries and the processing of agricultural products.

The five cover a total area of 246,600 ha, and cashews, mangoes, sugarcane and tropical medicinal herbs will be cultivated there as well as aquatic products.

The province, also a special economic zone, welcomes foreign funds, technology and technicians to take part in the development of these projects.

Land leasing, contracting and bidding will be used in the process of development.

The special economic zone will set up an administrative committee and information center in charge of the coordination of the agricultural development projects.

Heilongjiang Raises Flax Prices

40060045F Harbin HEILONGJIANG RIBAO
in Chinese 22 Mar 90 p 1

[Summary] Heilongjiang Province has increased the procurement price for average grade (third grade) flax stalks from 0.45 yuan per kilogram to 0.477 yuan; the price of flax seeds has increased from 0.90 yuan per kilogram to 1.40 yuan; and the factory sales price for flax fiber is 0.80 yuan per kilogram.

Hunan Raises Oil Procurement Prices

40060046A Changsha HUNAN RIBAO in Chinese
1 Apr 90 p 1

[Summary] On 1 April, Hunan Province increased the procurement price for semifinished rapeseed oil from 158.4 yuan to 207.4 yuan per 50 kilograms; tea oil 188.7 yuan to 235 yuan per 50 kilograms; semifinished cottonseed oil 125 yuan to 163 yuan per 50 kilograms; rapeseed cakes 16-17 yuan to 22 yuan per 50 kilograms; and soybeans 36 yuan to 40.5 yuan per 50 kilograms. The sale price of edible oil in rural areas will be based on

readjusted procurement prices, the sale price of edible oil to urban residents will not change, prices will continue to be subsidized by the state.

Means of Increasing Yunnan's Grain Production Explored

900110474A Kunming JINGJI WENTI TANSUO
[INQUIRY INTO ECONOMIC PROBLEMS]
in Chinese No. 1, 1990 pp 8-12, 55

[Article by Yuan Dezheng (5913 1795 2398): "Study of Grain Increase in Yunnan"]

[Text] I. Necessity for Yunnan's Self-Attainment of Grain Balance, and Feasibility of a Phase Balance Goal

(1) Necessity For a Major Effort For Self-Attainment of Grain Balance Throughout the Province.

In submitting the "Government Work Report" that the Provincial People's Congress passed in 1988, the Yunnan provincial government said the following: "During the Seventh 5-Year Plan, efforts were made to advance a step toward self-attainment of basic balance in the development of grain production. This major strategic decision is, we believe, consistent with realities in the province both at that time and today.

The importance of grain as a special commodity, which has been employed as a strategic weapon in international intercourse, goes without saying. Because of its geographical environment, the condition of its transportation, and its special social and economic conditions, grain plays an even more important strategic role in Yunnan. Today, in particular, when world grain output has entered a trough of cyclical fluctuations, when international grain stores have declined sharply and grain prices have risen, when there is a general grain shortage in the country, and when a fundamental turn around will be difficult to achieve in a short period of time, large scale shipments of grain into the province pose the following problems: first is difficulty in finding a steady source of supply; second is difficulty in getting the varieties wanted; third is extremely limited availability of transportation and storage facilities; and fourth is too heavy a financial subsidy burden. In a mountainous, border area province containing many different nationalities such as ours, once a grain shortage occurs, the consequences go without saying. Therefore, the scientific connotation of a "major effort for self-attainment of basic balance in grain" is as follows: First, "self-attainment of balance" means "regional balance between output and demand," i.e., basic balance between the region's production and supply. It does not mean exchanging tobacco for grain, exchanging sugar for grain, or being able to buy grain if money is available, which is achieving balance between supply and demand through shipments from elsewhere. Second, a "major effort for self-attainment of basic balance means a major effort to achieve no less than 300 kilograms per capita of grain within a short period of time throughout the province, steady development of grain production providing a basis for readjustment of the structure of rural agriculture.

Because grain is not only a dominant product, but also the indispensable material foundation for readjustment of the rural economic structure, given the province's low level of grain production and the great potential for increasing grain output, attainment of basic balance between grain output and sales throughout the province is not only extremely necessary, but also feasible.

The inherent relationship between grain and rural industry in Yunnan Province is generally as follows: When the amount of grain is lower than 250 kilograms per capita and the structure of rural production shifts to a single product, readjustment of the rural industrial structure becomes difficult, and the rural economy enters a vicious cycle. When the amount of grain stands at 250 kilograms per capita, readjustments of the rural industrial structure begin to be made. The internal structure of farming begins to loosen up, and both forestry and animal husbandry see attendant development. The rural economy expands from production of a single product to multiple sectors. When the amount of grain exceeds 300 kilograms per capita, fairly rapid development of rural economic diversification occurs, particularly of cash crops enjoying local advantages, as well as other industries having to do with cash crops for a corresponding readjustment of the rural industrial structure. This shows clearly that a starting point of no less than 300 kilograms per capita of grain throughout the province is both a minimum goal for satisfying people's survival needs, and is also a basic goal for optimizing the rural industrial structure to enable the rural economy to enter a benign cycle.

In order to insure a grain supply no lower than 300 kilograms per capita, until such time as marked breakthroughs have been made in grain yields, and until there is a marked increase in grain output, there can be no ill-advised reduction of the grain growing area while a major effort is being made to realize basic balance. This is because the step-by-step history of efforts to increase grain output shows that readjustment of the rural industrial structure, particularly the internal structure of farming, can only be done gradually and not suddenly.

(2) Forecasts About the Phased Goal of Self-Attainment of Grain Balance

Self-attainment of grain balance means attainment of coordination between output and demand through one's own efforts. It means both balance through organizing production according to consumption, and it also means controlling consumption according to production. Doing this requires forecasting both production and consumption in order to set goals and methods to be used in attaining balance. In forecasting balance, consideration must be given to the following factors:

(1) Constant increase in the amount of social demand. Despite the advances made in grain production in recent years, because of the concomitant increase in population and the increase in grain consumption, the province's total social demand has also increased, so the per capita level of

consumption has remained steady. As population increases and improvement in the standard of living is called for, per capita consumption will become greater. Social demand will increase steadily, and the former speed of increase in grain output will be unable to satisfy the ever increasing demand. Therefore, in making forecasts, consideration has to be given to controlling the speed of population growth.

(2) Potential for grain increase. Increasing the total amount of grain depends on three major factors: namely, the growing area, the multiple cropping index, and yields per unit of area. Only by focusing on information about and analysis of these factors will it be possible to make forecasts about the speed of increase that grain output can attain, and the potential for maximum yield increases.

(3) Setting the goal and level of grain balance must be based on historical development. It is necessary to proceed from realities as they exist in the province, both making comparisons with past increases, and also taking into account current potential. One cannot blindly seek high consumption divorced from the province's realities. This is the only way of placing the self-attainment of balance on a reliable basis that can be realized with effort.

1. Forecasting development goals. The study of grain consumption nationwide suggests three standards, namely that between 300 and 350 kilograms per capita can only provide basic needs; between 350 and 600 kilograms permits improvement of consumption; and only more than 600 kilograms can be termed enough to enjoy. Circumstances differ throughout the province. The foundation is very low, and we cannot keep up with the country as a whole. Many years of analysis and practice in daily life show that 300 kilograms per capita throughout the province is enough to meet basic needs. This level was attained in 1956, 1957, and 1984. An output of between 350 and 450 kilograms may be considered an improvement in living standards (the comfortable level), and more than 400 kilograms may be said to be sufficient to permit enjoyment. On the basis of the province's grain production history as well as future potential for increase, the maximum production potential will be as follows: efforts to satisfy basic needs until 1995, and improved living conditions by 2000, i.e., between 325 and 350 kilograms per capita. Thus, departments concerned predict that if population increase is held to below 14 per 1,000, by 1990, the province will have a population of 36.88 million. By 1995, it will be 39.53 million, and by 2000, it will reach 42.13 million. Forecast grain demand is shown in Table 1 below.

Table 1. Forecast Grain Demand

Particulars	Units: Per Capita: Kilograms				Total Demand: 10,000 tons	
	1990		1995		2000	
	Total Demand	Per Capita	Total Demand	Per Capita	Total Demand	Per Capita
Total Grain	1106	300	1285	325	1500	356
Paddy	550	149	640	162	680	162
Barley, Oats, Wheat	100	27	120	30	160	38
Corn	300	81	350	88	425	100
Tubers	60	16	70	18	90	21
Miscellaneous Grains	85	23	90	23	125	30
Soybeans	11	3	15	4	20	5

If population increase exceeds the 14 per 1,000 target, grain demand will increase correspondingly.

2. Forecast for increase in grain output. Judging from the lessons of experience in the historical development of grain production in the province, the foundation will be further strengthened. Accompanying scientific and technical advances, and increased inputs and improvements in production conditions, the potential for grain increase will steadily improve. A brief analysis based on just grain yields per unit of area, multiple cropping area, and gross output potential is provided below.

(1) Analysis of grain yield potential. A regression analysis of output during a given amount of time (data taken from the period 1970 to 1985) using the annual incre-

mental increase method on data for normal years (an increase of 4.5 kilograms for the period 1978 to 1985), and time sequencing was performed. When looked at in terms of historical experience, the results of these two calculations permits the conclusion that at a normal year rate of increase, yields per unit of area will reach 205 kilograms in 1990, 225 kilograms in 1995, and 250 kilograms in 2000.

(2) Analysis of area sown potential. Historically, Yunnan Province's multiple cropping index for farm crops has been relatively low, generally only around 140 percent. This is both lower than for the nation as a whole and for other provinces, showing that the land holds substantial additional production potential. Forecasts from departments concerned show a 42.5 million mu cultivated land area in 2000. If 36 million mu of it is used to grow grain, and 6.5 million mu is used to grow cash crops and other

crops, the multiple cropping index for grain will have to be increased to more than 150 percent. In addition, land used for the growing of tobacco as a cash crop will have to be devoted to grain; thus the total area sown to grain will reach approximately 56 million mu. Figured at a yield of 250 kilograms per mu, total grain output will reach 14 million tons.

(3) Analysis of increase in gross output of grain. Using the regression method to extrapolate from 23 normal years between 1952 and 1985, gross output will be approximately 13,535,500 tons, plus or minus five percent in the year 2000. Calculated at the speed of annual incremental increase during the Fourth 5-Year Plan period, gross output will reach 13,943,500 tons. Drawing on historical experience with grain increases, and using a 2.2 percent annual incremental increase for the 1990's, gross output will reach 10.425 million tons. Use of 2.7 percent annual incremental increase up until 1995 produces a gross output of 11.91 million tons; and use of a 3.5 percent annual incremental increase until the year 2000 produces a gross output of 14.145 million tons. Results of these calculations are basically in agreement with results of extrapolation from representative experience.

On the basis of calculation of the gap between the amount of demand for grain and the amount that can be supplied in the province, approximately 635,000 tons of grain will have to be shipped into the province in 1990, 940,000 tons in 1995, and 855,000 tons in 2000. (See table below). Realization of this goal will mean "basic self-attainment of balance."

Table 2. Forecast of Grain Supply and Surplus

	Units	1990	1995	2000
Total Population	10,000	3,688	3953	4213
Per Capita Demand	Kilograms	300	325	356
Gross Demand	10,000 Tons	1106	1285	1500
Gross Output	10,000 Tons	1042	1191	1414.5
Per Capita Amount	Kilograms	282.2	301.3	335.7
Gross Surplus	10,000 Tons	-63.5	-94	-85.5

Exploration of Means To Increase Grain Production

There has been considerable controversy about strategic choices of means and the main direction of attack to increase the province's grain output. Examination of practice has resulted in a gradual convergence of views during the past several years. Particular attention should be paid to the following several points:

(1) **Main Direction of Attack To Increase Grain Output.** Given conditions in the province, there are generally only two methods of getting more grain, as follows: The first is steady expansion of the grain growing area and

increasing the multiple cropping index to insure steady increase in grain output. The second is intensive farming for steady increase in grain yields per unit of area. The amount of barren land in the province that can be reclaimed for agriculture is limited, so reckless expansion of the cultivated land area will lead to deterioration of the ecological environment. Thus, the only way open is to increase yields per unit of area. Increasing yields requires concrete analysis in order to be able to provide tailored guidance.

There are not many high yield fields in the province. The percentage of medium and low yield fields is very great at approximately 80 percent of the cultivated land area, and their potential for increased growing of grain is also very large. Looked at from the economic returns standpoint, unless some comprehensive breakthroughs are made shortly in agricultural science, no marked increases in yields from high yield farmland will be possible. Getting higher yields from already high yield fields is rather difficult. Only inputs of chemical fertilizer and manpower can produce marginal yield increases. Analysis of representative sampling data shows a 1 to 6:28 input-output ratio for high-yield farmland, and a 1:21 input-output ratio for medium-yield fields. Results from medium-yield fields are more than twice again as great as from high-yield fields. As far as the province's low-yield grainfields are concerned, some have poor production conditions that will have to be improved gradually, a good job of farmland capital construction being done. Some other cultivated land not suited to the growing of grain should be gradually withdrawn from cultivation for reversion to forests or pasturelands, or else converted to the growing of cash crops. Of greater help in providing tailored guidance, the strategic orientation for increasing grain output out to be the launching of a main attack on medium-yield fields, expand high-yield fields, and improve low-yield fields. In addition, more comprehensive research should be done on the growing of dryland grain in order to advance the balanced development of grain production. In Yunnan Province, approximately two-thirds of the cultivated land consists of dryland fields, making them the largest kind of cultivated land. Among dryland fields, the percentage of medium- and low-yield fields is especially high. Thus, they offer very great potential for increased yields, and are of crucial importance in promoting balanced increases in grain yields throughout the province, and in increasing gross output. Increasing dryland grain production does not mean just solving the basic livelihood needs of various nationalities in mountain regions, but also means having a material basis for the development of economic diversification and enlivening the economy in mountain regions. Therefore, in the whole process of developing grain production and launching the main attack on medium-yield fields, attention to increasing dryland grain yields per unit of area holds greater strategic significance.

(2) **Relatively Fixed Grain Growing Area.** In 1978, the province had a 55.17 million mu grain growing area. In

1985, it was 49.78 million mu, a 5.39 million mu decrease in seven years, or an average annual 770,000 mu decrease. In 1987, the grain growing area totaled 50.47 million mu, 690,000 mu more than in 1985. Such fluctuation shows that because of the combined effect of various factors, increasing grain yields and the multiple cropping index cannot be done overnight. Until such time as marked breakthroughs are made in grain yields and the multiple cropping index, it will be necessary to insure steady increase in the province's total grain output, and that will require insuring a definite grain growing area and a relatively fixed grain growing area.

Typical examples show average grain yields from the four high grain yield areas in the southern part of the country, namely Zhejiang, Hunan, Jiangsu, and Shanghai, have climbed from approximately 180 kilograms to between 225 and 300 kilograms in between 11 and 18 years time, rising only between five and 10 kilograms each year. In some developed countries such as Japan and France, average yields went from 180 kilograms to about 300 kilograms in about 10 years, averaging only an approximately seven kilogram increase each year. For Yunnan Province, which lacks a strong capability to withstand natural disasters, and whose scientific and technical forces are weak, the application of science and technology, and improving the ability and speed of the peasants to absorb and digest it will be a fairly long process. Representative samplings show that it takes between five and six years to get a 70 percent or better coverage in promoting application of a single skill among the province's ethnic minority areas. Spreading the application of multiple skills takes about 12 years. Under these circumstances, tremendous increase in grain yields will also be a gradual process. Until such time as marked breakthroughs are made in grain yields and the multiple cropping index, insuring steady increase in grain throughout the province will require a correspondingly fixed grain growing area. In today's terms, this means that the province will have to stabilize the grain growing area at 52 million mu or more, and the grain growing area in the main cash crop growing areas should likewise be no lower than 70 percent of the total area sown. When the internal structure of farming is readjusted in the future, only gradual changes can be made in the grain growing area. There can be no sudden changes.

As far as can be seen today, a relatively stable grain growing area will require a relatively stable post-readjustment internal structure of the farming industry. The field of vision of future readjustments of the agricultural structure should not be confined just to the internal structure of farming; the focus should be on optimizing the structure of agriculture as a whole and on other industries at various levels that have yet to be readjusted, thereby enabling further opening up of the space that has been structurally readjusted, and going on to advancing the steady deepening of the coordinated development of grain production and rural reform.

(3) Expansion of the Multiple Experiments Area, Taking the Road of Multiple Agricultural Experiments and Demonstrations. Yunnan has a complex natural climate; it

has numerous nationalities; and production conditions as well as economic and educational levels differ from place to place. How to adapt to these multiple level differences in natural, economic and social development to translate existing scientific and technical achievements into direct productivity is a problem. A look at realities during the past several years shows that close attention to multiple agricultural experimental areas in which the emphasis is on grain, actively promoting multiple applied techniques has been a successful experience in the realization of "agriculture depending on science." Countless facts repeatedly demonstrate that whenever multiple experimental areas are well run, grain yields increase markedly in normal years, and even in years of fairly big disasters, a fairly good crop can be harvested. Among the counties that had all-time high grain outputs in 1987, a substantial percentage were counties in multiple experimental areas.

The reason for multiple experimental areas being able to score such marked achievements lies in their close links to specific current local situations, and the dovetailing of the three components of experiments, promotion of demonstrations, and technical training. They link together leaders, technical personnel and production by the masses; they link together the three links of production, management, and economic returns; they link together authority, responsibility, and benefits; and some of them link together the coordinated development of grain, forests, and animal husbandry. These concrete methods, which set the stage for the development of scientific research and the spread of research achievements, as well as for the peasants to study science, use science, and depend on science will be bound to power the steady development of grain production.

(4) Founding of Commodity Grain Bases and Readjustment of the Mix of Grain Crops. The building of commodity grain bases, and the development of households specializing in grain production is an important choice for solving the province's problems of inconsistent grain production and an inadequate source of commodity grain. It is also the road that must be taken for future regionalization, specialization, and commercialization of grain production. The building of commodity grain bases requires, first of all, doing a good job of the macroeconomic layout in accordance with principles for the selection of a base site and attendant conditions, and validation of feasibility. The second requirement is the concentration of manpower, material, and financial resources before 2000 to improve overall agricultural production capabilities in 30 counties in central Yunnan, and six prefectures and zhous in southwestern Yunnan in which grain is paramount. At the same time, other bases should be selectively built, in turn, to increase the self-sufficiency rate.

Paddy rice is the principle food in the diet of people of all nationalities in the province, and it is also a high yield crop whose growing area should be expanded accordingly. Corn is the principle grain eaten by the people in mountain regions, and it is also the principal fodder

crop. While working to increase yields, its growing area should also be expanded. The multiple cropping index should be increased, mostly by increasing the area sown in late autumn. While stabilizing or appropriately reducing the tuber and other low-yield miscellaneous grain growing area, vacant land should be used to grow bajiao (5359 5604 5341), cassava, and other woody plants. Only by establishing a broad concept of food can society's demand pressure on grain be further reduced.

(5) Running of Pilot Projects on Farming On a Proper Scale. The scale of farming possesses its own limits. Today, following the division of rural land among households for farming, the scale is small, and the land is broken up into separate bits and pieces. This makes it difficult to get the benefits of scale from farming, and also makes modern production and management difficult. Obtaining greater intensity requires a transition to farming at a proper scale. Such a "transition" means neither retaking the old road of the collective economy, nor does it mean using administrative methods for simply melding plots. It does mean seeking a farming method suited to the development of productivity that is founded on the peasant's voluntary participation and mutual benefit. Farming on a proper scale does not mean the bigger the better, but rather a scale of farming suited to different levels of development of productivity, enabling a rational combination of agricultural production factors.

Farming on a proper scale cannot be realized by standing with folded arms, nor can it be realized by rushing pell-mell into mass action. It requires gearing to the province's realities, and running experiments at selected points as the level of productivity in different regions warrants to do good preliminary work for the deepening of reform. Pilot projects can be run now in some areas in which the growing of cash crop forest trees, cash crops, and the aquatic breeding industry are fairly concentrated. At the same time, diverse methods such as the "two field system," the "rental system", and the "stock share system" may be used in suburban areas in which industrial sideline occupations are fairly well developed for the running of pilot projects on farming at a proper scale. Operations at a proper scale in other agricultural production sectors will also doubtlessly advance the appearance of a proper scale of grain farming, thereby gaining the benefits of scale.

3. Attendant Policy Measures For the Development of Grain Output

Grain production involves very many factors. It requires joint efforts in many regards, cooperation among the whole, and mutual coordination in order to get fullest returns. Therefore, it is necessary to formulate powerful, serial policy measures to channel and encourage peasant interest in the development of commodity grain production.

(1) Formulation of Policies To Encourage the Development of Commodity Grain Production

Stirring the interest of producers, dealers, and managers requires, (1) earliest possible rationalization of agricultural product prices to narrow the "price scissors" between industrial and agricultural products. While a dual track price system is in force, fixed contract procurement of grain should be gradually reduced for an expansion of the scale of market regulation. The fixed contract procurement system should be further improved, and more favorable price subsidies provided for grain covered by contracts; (2) peasant households that offer large amounts of contract grain for sale should be looked after economically and given bonuses; (3) the honoring of agreements for the sale of goods and loans of capital linked to grain quota fulfillment should be assured; (4) policies to achieve grain balance in small areas, and a rational direction of flow in prefectures, zhous, and cities, the evening out of surpluses and shortages, designation of tracts by area, and allocations and transfers from nearby as principles for the contracting of shipments out and in, and for linking them to government revenues should be instituted; (5) greater rewards should be given to areas showing a net gain from outshipments; and (6) a responsibility system for local cadres attainment of the goal of increasing grain production during their terms of office should be put into effect.

(2) Increasing Agricultural Inputs, and Establishing an Agricultural Development Fund. Strengthening the foundation of agriculture, particularly the grain foundation, requires inputs of large amounts of capital to improve production conditions. State investment in the capital construction of agriculture should be restored to the 14.8 percent of the Fifth 5-Year Plan period from the present 5.4 percent, most of it for use in the construction of farmland water conservancy, and for the development of industry to support agriculture. Funds used for agriculture (including agricultural capital construction funds and payments to support agriculture) as a percentage of total government financial disbursements should be no lower than 20 percent, and preferably 22 percent. All prefectures and counties should also correspondingly stabilize the percentage of their investment in agriculture. In addition, funds must be gathered from all sources to establish an agricultural development fund to support grain production. Consideration should be given to the following as sources of such funds: first is withholdings from unbudgeted funds; second is withholdings from new tax income obtained from township and town enterprises; third is a portion of taxes obtained for takeovers of cultivated land; fourth is a portion of increased receipts from rural special product taxes; fifth is a portion of new revenues received from individual industrial and commercial households in rural villages, and from private enterprises; and sixth is agricultural production support payments collected on agricultural products and other processed products shipped outside the province.

In addition to an increase in state investment in agriculture, a peasant household microinvestment mechanism should also be established. After contracting rural land, even though the contracting period may be long, eventually it comes to an end. As a result, peasants always feel

that the land is not their own, and they always want to make making maximum use of resources during the contracting period. Even though they may have surplus manpower and capital, they do not want to make long-term improvements or do additional work on contracted land. In order to change the peasants' short-term outlook, it is necessary to institute a system of rewards and punishments based on an appraisal of the soil, setting up files and conducting tests to determine rises and falls in the quality of the land. These are all beneficial to taking good care of the land, nurturing soil fertility, hastening farmland capital construction, and making land transfers for compensation.

(3) Reliance on Scientific and Technical Progress, and Spread of Applied Technology.

(1) Establishment and perfection of the scientific and technical system as it pertains to advancing development of grain, maintaining continuity in the scientific and technical corps, and improving its quality for the formation of a complete scientific and technical network for work in the province, prefectures, counties, and townships; (2) reform of the farming system, using hybrids, promoting ground mulch culture, doing a good job of improving red earth, scientific fertilization, and prevention and control of diseases and insect pests, developing farming in the direction of greater use of data and more standardization; (3) widespread training of various kinds at various levels; (5) encouraging agricultural science personnel to engage in various forms of contracting; and (6) providing preferential rewards to scientific and technical personnel on the front lines of production.

Assessment of Social Order Problems in Border Areas

90CM0025A Beijing RENMIN GONGAN BAO
in Chinese 26 Feb 90 p 3

[Article by Zheng Yuhua (6774 3768 5478): "A Preliminary Discussion of the Problem of Maintaining Order in Border Areas"]

[Text] The so-called border area is a general term for bordering regions between neighboring administrative districts or adjoining sectors or places of different topography or landforms that often have contact such as inter-provincial, inter-county, urban-rural, mining-rural and mountain-forest, land-water contiguous areas. In recent years, in the wake of the development of the commodity economy and the increase in the formation of border areas and the economic and cultural development of these areas, the problems reflected in maintaining order in these areas also have increased.

The Influence of Border Areas on the Maintenance of Social Order

The formation of border areas and their great increase undoubtedly are manifestations of social development, but because they are not suited to administration they cannot avoid bringing negative influences to the maintenance of social order:

1. *Unhealthy Lifestyles Permeate One Another.* Because there are rather great discrepancies in such aspects as the border area's economic development and level of cultural life and the administrative machinery is weakened, it can cause some people prompted by a preoccupation with money and the pursuit of pleasure to unscrupulously seize large amounts of wealth. In addition, some rotten things after they have spread through other areas to the border areas, cause such socially repulsive phenomena as gambling, prostitution, and feudal superstitious activities that had earlier disappeared from those areas to resurface and contaminate and spread between the border areas.

2. *Great Deal of Mobility and Mingling of People.* According to the statistics of a certain county in northern Jiangsu Province, the daily average rate of population movement had reached over 80,000 people and registered temporary resident population exceeded 40,000. Some traders and purchasers often look upon border areas near cities and adjacent to mines as ideal places to stay and carry out their activities, causing these places to have a large, mixed group of people from other areas. Some lawbreakers and criminals take advantage of the opportunity to mingle with them and commit crimes.

3. *Various Types of Contradictions and Disputes Increase.* On the one hand, because the border areas are linked in their geographical environments by mountains, rivers, forests, and roads, there is increased incentive for mutual contacts in the people's lives. On the other hand, because the way administrative districts are cut produces contentions for economic profit, in these circumstances

it is unavoidable that various types of frictions will be produced leading to an increase in mass disputes.

4. *Public Security Management Systems Crisscross and Have Many Heads.* Because the administrative affiliations of border area's large and medium-sized factory and mining, railroad, and water transport departments are different, they all systematically establish their own public security organizations, and form parallel systems to the local public security organizations, creating a fragmented situation with many heads. This produces various abuses: A. In reporting cases—mutual shunting of responsibility. Even though border areas also have public security branches under their jurisdiction, the opportunity to break some cases is often lost because disputes are not resolved over the geographic jurisdiction of a road, a river, or a bridge. B. In information exchange—mutual breakdown in communication. Although several local police stations in a district "can hear one another's chickens and dogs," information is very seldom exchanged. Some times the phenomenon will even occur where several stations will gather duplicate information on a single clue on a single suspect, have duplicate summons and investigations, and block one another. C. Wrangling over public security jurisdiction. Mutual shunting of responsibility for reporting crimes leads to some border areas becoming public security dead spots where "nobody cares" and "havens" for lawbreakers and criminals. D. On the use of police power—canceling one another out and internal waste. Because border area public security organizations are not rationally established, some that do not even have the area of a township have established three or four public security stations.

Regular Pattern of Characteristics of Border Area Criminal Activity

The influence of the increase of border areas on social order causes these places to manifest regular patterns of criminal activity different from other places:

First, Frequency. Looking at the region of occurrence of crimes in recent years, urban-rural, mining-rural, inter-provincial, and inter-county border areas are areas of frequent lawlessness and crime, approximating the social order proper for a small region. According to relevant material, in the first half of 1989, in the 12 border areas of the four provinces of Jiangsu, Shandong, Henan, and Anhui, urban crime cases were numerous, over 30 percent higher than other interior places and cities. Criminal cases in townships and towns in the border areas were over twice that of other rural townships and towns.

Second, Proliferation. The peculiarity of the location of border areas determines that they are easily influenced by the surrounding areas and their public order climate is extremely sensitive. At the same time, the area's public order problems also can easily spread to the surrounding area. Some particularly prominent criminal cases, frequently first appear in border areas, and because measures are not promptly taken to control them, they

gradually spread to other neighboring areas, and eventually evolve into commonplace public order problems. Since last year, the onslaught of "two blocks, one poke" [liang lan yi tong 0357 2374 0001 2183] cases was rather fierce in the eastern Henan southwestern Shandong area, and northern Jiangsu was very quickly affected.

Third, Jumping. Some criminal elements use the border areas' geographic condition of "stepping over two provinces in one step and jumping over three counties in two steps" and the loopholes in the administration of public order and with the aid of modern tools of communication would either cross over a country to commit a crime and return home to hide or commit a crime in their own province and go out of the province to lie low. All of these obviously are jumping characteristics.

Fourth, Collusion. Criminal elements committing crimes in border areas are certainly not troubled by territorial separations and individuality. They actually use the fact that border area public security is not strictly administered and form gangs to commit crimes. Therefore, in the last few years, the number of gangs and their members have constantly increased. Last year, in a certain northern Jiangsu city alone of the 3,991 fugitive arrests investigated, 2,242 were gang members, 61.1 percent of the total number.

Fifth, Diversity. Because border areas have different composition and degrees of complexity, each border area also has its individual characteristics. Such places as major traffic junctions and wharfs of urban-rural border areas are susceptible to vehicle and boat thefts. Mining and mining-industrial areas are typical gathering places for young workers and susceptible to hooliganism and rape cases. Large and medium-sized enterprises are located in mining-rural border areas. Because raw and processed materials are amassed there, they are susceptible to larceny. Inter-county border areas located in remote economically rather backward provinces are susceptible to murder, bodily injury, and white slavery cases. Urban-small commune border areas with a high population density and concentration of merchandise, money, and floating population are areas where theft and pickpocket cases and cases of hooligans stirring up trouble and prostitution frequently occur.

Policy for Stabilizing the Border Area Security Situation

The crime situation in a border area and its characteristics determine how we manage public security work in their particular area. We must pay attention to resolving the following few problems:

First, smooth out mountaintops, integrate the system, and change a many-headed administration into one with someone "in charge." Since overlapping public security organizations, multiple leadership, and fragmentation

are a big problem influencing the stability of border area public security, it is necessary to smooth out the mountaintops and put one in charge, making a township (street) building a public security administrative organization "in charge." Thus the "three unities" can be accomplished: 1. adopting unified thinking, changing the past situation of "You take care of your case and I'll take care of mine;" 2. adopting progressive public security administration and taking prompt appropriate counter-measures; 3. adopting a unified use of police power.

Second, break down divisions and strengthen coordination, changing individual warfare into coordinated warfare. In circumstances where it is difficult to settle on a unified organization, border area public security organization at every level should persist in basing themselves in their own areas while taking the neighbors into account, strengthening cross contacts, and increasing the speed of information transmittal, opening up channels for coordinating the mutual support of all the parts and sides of society to share information. In breaking cases we should break down administrative divisions and launch a string of investigations and carry out many-sided, coordinated warfare. We should not only have coordination in ordering investigations, and blocking and controlling criminal coordination, but we also should have coordination of data, intelligence, and information, and coordination of the locality with the railroad, the waterway, and the forestry, forming a surrounding pincer attacking force and concentrating our power to fight a war of annihilation.

Third, break out of the mold and dare to explore, and change static management to dynamic management. Presently, border area public security management must similarly change from the closed, static form to an open dynamic form. It must break out from the traditional principally static form of management and establish a form of management suited to a mobile population. We must get a clear idea of types of people in the border area and treat them according to their degree of danger and carry out dynamic management of the element that is a real danger. If we are to implement the above measures, we must place the main police force on the first line.

Fourth, reform the joint defense with its various forms and change it so that individual protection becomes mass defense, mass order. We must adapt to the border areas' changing new situation. We must strengthen mass defense and mass order work and organize an omnidirectional, three dimensional, cross sectional mass defense system with many forms, many levels, and change the "individual protection" of a single local police station into a popular mass defense so as to gradually develop the networking, close-knit, multiple, social aspect of border area protection and promote the steady improvement of border area social order.

EAST REGION

Conference Renews Emphasis on Cadre Development*90CM0080A Nanchang JIANGXI RIBAO in Chinese
13 Mar 90 p 1*

[Article by Hua Youliang (5478 2589 5328) and Deng Zhigang (6772 1807 0474): "All-Around Good Performance of Cadre Inspections for Genuinely Better Building of Teams Is Emphasis of Province Organization, Cadre, and Personnel Department (or Office) Directors Conference"]

[Text] Prompt and diligent implementation of the spirit of the National Conference of Provincial, Prefecture, and Municipal CPC Committee Organization Department Directors to do a more thorough job of examining leading cadres at the county level and above to ensure that leadership authority at all levels of the party and the state is firmly in the hands of those loyal to Marxism was a call made by Jiang Zhuping [5592 4376 1627], provincial CPC Committee deputy secretary and vice provincial governor, on 10 March at the provincial Conference of Organization, Cadre and Personnel Department (and Office) Directors.

Comrade Jiang Zhuping said that the conference of national organization department directors convened by the Central Committee was very important, and that the provincial CPC Committee wants prompt and diligent continued implementation of plans, making sure that they are carried out. It is necessary to realize fully the importance and the urgency of ensuring that leadership authority is firmly in the hands of people loyal to Marxism. Close attention should now be given, first of all, to organization building. Leaders of the provincial CPC Committee are preparing to hear reports on the situation from individual examination teams, and leaders of each prefecture and municipal department and bureau should also listen to reports on office-level cadre examinations in constituent counties. Where examinations have not begun or have not been completed, close attention should be given to moving ahead. Second, attention should be given to the building of ideology among leadership teams at all levels, efforts made to heighten leading cadre's understanding of Marxist theory. Provincial CPC Committees have spelled out study tasks and have levied requirements for the study of Marxist theory by leading cadres at the county level and above throughout the province. Organization departments should diligently ensure their implementation. Next, attention is to be given to building the work style of leadership teams at all levels, emphasis placed on carrying forward the party's fine traditions, carrying forward the spirit of Jinggangshan of honest and hardworking government, serving the people wholeheartedly, and maintaining flesh-and-blood ties to the masses.

Lu Xiuzhen [4151 4423 3791], provincial CPC Standing Committee member and director of the provincial CPC

Committee Organization Department, delivered some views on implementation after relaying the spirit of the national conference of Organization Department directors. She emphasized the need to continue diligent attention to cadre examination work, applying examination results to the building of leadership teams. Units already examined should diligently analyze and study ideas for improving the building of teams. They should conduct a survey of the scope, the content, the quality, and the pace of examination work, focus on existing problems, taking actions to make sure problems are solved. Units that have not conducted examinations, or that have begun but have not yet finished, should make sure to move ahead. Cadre examination work must be conducted seriously and earnestly. Cadre examination work throughout the province is to be completed before the end of May. Examination is to be used as a basis for applying examination results to the building of leadership teams. Each leading cadre and each leadership team is to be analyzed one by one, a consensus reached, those that should be strengthened being strengthened, and those that should be readjusted being readjusted as work needs require in order to ensure leadership team purity, to strengthen their cohesiveness and combat-worthiness, and to ensure that leadership authority at all levels is firmly in the hands of people loyal to Marxism. Special attention should be given now to the selection and development of first-rate reserve cadres. Principal leaders at all levels should personally examine and gain a close understanding of them, pay attention to spotting and developing outstanding talent that is able to do first-rate work, experienced ones being placed in important positions for development and tempering.

Lu Xiuzhen also talked about doing more to build the ideological style of leadership teams. He suggested that efforts be made to improve leading cadre's understanding of Marxist theory. Leading cadres at the office level and above in all counties should make arrangements so that each cadre can be excused from regular duties once year year for no less than one month of study. Leaders should improve their work style; they should develop close ties to the masses, and they should shape institutions to which they adhere for a long time. Rules of procedure should be established and perfected, and full use made of standing committees and of the role of standing committees. Decisions about major issues and cadre promotions and appointments must be discussed collectively, no individual having the final say. Organization departments should make democratic life meetings and the talk system a major work emphasis.

Also attending the conference were more than 300 people, including comrades in charge of cadre and personnel work in units under direct provincial control, and the director and deputy director of the provincial CPC Committee cadre examination team.

Xinyu City Works To Strengthen Cadre-Masses Ties

SEE MINNGBA Nanchang JIANGXI RIBAO in Chinese
[4 Mar 90 p 1]

[Article by special reporters Peng Shanmin (1756 1421 2404) and Liao Xingguang (1675 3574 0342): "Xinyu City Cadres Go to Grassroots To Shape Systems"]

[Text] Xinyu City is devoting serious attention to organizing cadres in party and government organs to go to the grassroots for the purpose of developing and tempering the cadre corps, and to forge close links with the masses. It is constantly summarizing experiences to enable regularization and systematization of this process.

In 1986, Xinyu City set about using various methods such as the establishment of rural work sites, rural-agriculture joint management and development, village contracting sites, cadre registration points, and contracting by technical groups, sending large numbers of cadres each year from city party and government organs to grassroots locations such as rural villages and factories. During 1989, more than 92 percent of 64 village committees at city cadre contract sites fulfilled quotas prescribed in the form of goal responsibilities, and numerous village contract site cadres received praise from the masses.

Right after the lunar New Year in 1990, the city CPC Committee and the city government used a summarization of experiences during the past year as a basis for further improving plans to send party and government organ cadres to the grassroots. They adopted the multiple methods of grassroots special topic investigation and study, departments setting up village contracting sites, and young cadres going to the countryside for tempering, specifically providing that city-level cadres were to go to the grassroots to study and to stay at selected grassroots units to help improve work and gain firsthand experience for no less than three months each year. County levels were to spend no less than four months, one month of which they would spend at rural contact points. On 15 February, the first group for 1990, consisting of 643 party and government organ cadres, went to 96 different sites. This group included 11 city-level cadres, 100 county-level cadres, and 167 section-level cadres.

In order to ensure that cadre assignments to the grassroots did not degenerate into formalism, both the city CPC Committee and the city government instituted rigorous inspection and evaluation systems for this work. For units stationed at rural contracting sites, they instituted a responsibility system employing a signed agreement to reach goals, which was inspected for acceptance at the end of the year. Evaluation handbooks were issued to cadres at the county-deputy level and above. For technical group contracting and young cadres staying at selected grassroots units to help improve work and gain firsthand experience, regular inspections by units concerned were prescribed, a

consolidated summarization, evaluation, and comparison being made at the end of the year.

Shanghai County CPC Committee Acts To Reduce Corruption

SEE MINNGBA Shanghai SHEHUI KEJUE /SHI JIAO SCIENCES
[No 1, 15 Jan 90 pp 45-46]

[Article by Xu Qian (1776 0366 7559) and Zhang Guojun (1728 0948 6511) of the Shanghai County CPC Committee Organization, Shanghai Television University Shanghai County Branch School "Advocate Honesty, Eliminate Corruption, Govern for the People"]

[Text] In his speech to the Fifth Plenary Session of the 13th CPC Central Committee, Comrade Jiang Zemin pointed to the "need to increase the party's combat effectiveness" and to a "question of vital importance currently facing us, namely, the need to greatly strengthen the construction of grassroots party organizations." Recently the Shanghai County party committee has been doing a study and investigative analysis to consider whether the main current of most of the comrades making up the 240,000 party members of Shanghai County has been good since the Third Plenary Session of the 11th CPC Central Committee. They are also studying whether, in the course of the reform and opening policies, comrades have withstood trials and tribulations, and have been capable of performing their official duties in an honest and clean manner, whether they have thrown themselves enthusiastically into the work of constructing socialism and the four modernizations, whether they have given full play to their exemplary vanguard role and whether most of the rural grassroots party organizations also have combat effectiveness. However, in the process of reform and opening, in Shanghai County, some problems also exist in terms of party style. These problems have manifested themselves in several ways. First, in rural areas some party cadres use their power for personal gain, and there has been somewhat of an increase in corruption and cases involving taking of bribes. Second, there are occasional instances where some violate discipline and build dwellings, repair dwellings, study, and drive vehicles at public expense and install private telephones. Third, some rural party organizations are in a weakened and lax state, and are not exercising their role as a fighting bastion. The leadership of Shanghai County believes that the condition of the party has decisive significance for the destiny of the country and nation. For this reason, in the last several years, the county party committee has given substantial attention to problems that exist within the party, stressing the construction of rural party organizations that carry on clean and honest administration. They have focused on engaging in work in the following five areas:

1. Government for the people, rejection of corruption. In the last several years, from the county party committee to every grassroots party organization, there has been

significant emphasis placed on the development of clean and honest administration. A party style responsibility system has been established at each level, people have been educated, the fine people and fine deeds of those involved in clean administration have been continually publicized, thereby furthering the construction of clean government. From 1981 to August of 1989, there has not yet been any disciplining of village and town party committee group members because of problems associated with not being clean and honest. In the process of reform and opening, large numbers of advanced (party) branches and outstanding party members have emerged. For example, there is one leading grassroots comrade who in professional contacts with Hong Kong businessmen in February 1988, due to his prompt delivery and reliable quality, was offered 7,500 renminbi (RMB) by someone sent by the Hong Kong businessmen especially for this purpose. Later on, on three further occasions he was offered foreign exchange certificates (FEC) and a huge sum of U.S. dollars, all of which he refused to accept, turning the matter over to his superiors instead. His honest conduct won him the high respect of both cadres and the masses alike.

2. Maintenance of the system of democratic living within the party, and frequent self-checking and self-correcting activity. In the last several years, the two levels of party organization in Shanghai County have both been able to maintain a system of democratic living conferences held once per season. The party committee holds democratic living conferences, and the county discipline committee and county party committee organization send members to participate. The grassroots party branches hold democratic living conferences and members of the party committees' leading groups come and participate personally in order to provide the benefit of mutual democratic supervision. At the democratic living conferences, the county party committee also requires each party committee member to behave strictly in accordance with standards for party members, and, in terms of the question of honest government, to conduct self-checking and self-correction. In addition, they are required to promptly sum up their experience and lessons learned and progressively revise measures for instituting honest government, in order to prevent the breeding of corrupt phenomena.

3. Strict enforcement of party discipline and national laws, and absolute intolerance of evil (tolerating being the same as abetting). The county party committee leadership unanimously holds that the party style of a governing party is a question of vital importance for the party. For this reason, they have repeatedly stressed that, in terms of problems of dishonesty and corrupt phenomena, regardless of the level of the cadre, all must be bold in ferreting out such practices, and individuals must investigate and take the proper

party disciplinary action, while all criminals without exception should be punished according to the law, in order to preserve the party's purity. While taking responsibility for the construction of clean government, all county committee and grassroots organization party members must treat seriously the letters the people send in and the complaints they make when they pay a visit. Once it has been discovered that some leading members are using their power for personal gain, it is necessary to investigate and take proper action. For example, one town discovered that two major leading cadres were engaged in activity involving fraudulent temporary workers' wages which they were personally dividing between themselves. After an investigation, the matter was promptly and seriously dealt with. The two were relieved of their duties, one was placed on probation within the party and one was given an internal party disciplinary warning.

4. Maintenance and perfection of the system of routine checks for leading party and government cadres. The county party committee has all along upheld the critical necessity of having checks to see whether cadres are working for a government free from corruption, while at the same having a system of promotions and demotions, and rewards and punishments for cadres. In recent years, the adoption of this method has achieved excellent results, giving strong impetus to the actions of party members and leading cadres for government free from corruption.

5. Conscientious strengthening of the ideological and political education work for party members, hard work to increase the quality of the party-member contingent, and increased capability to opposing corruption. The concrete methods used by the county party committee are explained in the following paragraphs.

The committee conscientiously analyzes the situation of its party-member contingent, and holds that the education of party members should occupy the primary position in party work. After conducting analysis and research on the party-member contingent, the committee holds that, looking at the party-member contingent as a whole, the overall quality is good, though in terms of individual quality there are a fair number of existing problems with party members. Three common problems that exist with midlevel party members are: 1) Political thinking is muddled; sometimes when lectures are given the situation is not explained, negative speeches are given, and cynical remarks are made. 2) People's minds are not on long-range goals, everything is viewed in terms of money. People look vertically for position, and horizontally for income. 3) People work not for the masses, but for "self-protection," cultivating only "grain ration fields." By means of the analysis, the party committee leadership has come to realize that the party's image

depends on the image embodied by each and every party member and the party's fighting capacity is displayed through the degree to which each party member plays his or her role. In the last several years, the prestige of our party has not been sufficiently high, due not only to the corrupt behavior of a small number of people, which damages the party's image, but also to the considerable segment of party members who have not yet been able to give play to their exemplary vanguard function. For this reason, we must raise the prestige of the party among the masses and give full play to the role of the party organization as a fighting bastion. We must devote major effort to reaching large numbers of party members, taking care to handle properly the ideological and political educational work among a comparatively large proportion of midlevel party members.

By stressing links and what is key, genuinely carry out party member educational work. Stressing links involves properly stressing the standardization and systematization of the work of all levels of party branches and party groups, stressing what is key involves properly stressing the importance of raising the personal image of party members. Taking concrete action on the above five aspects involves, first organizing and carrying out activity associated with educating party members on standards. This means studying the relevant "party member standards" and "standards dealing with the party's internal political life" in the party constitution, as well as organizing viewings of the videos *The Offer of Absolute Sincerity*, and *Communist Party Members Must Undergo the Trials of Being at the Helm of the State and Engaging in the Policies of Reform and Opening*, visit "Anticorruption and antibribery" exhibitions, and, based on this, conduct special-topic seminars on party-member standards. In addition, they should carry out reviews of applications for party membership, organize informal discussions with model workers, invite retired senior cadres to discuss their ideals, give lessons in revolutionary tradition, and carry out speech competitions on the topic "My Image of an Ideal Communist Party Member."

NORTHEAST REGION

New Members of Liaoning CPPCC Standing Committee

90P300174 Shenyang LIAONING RIBAO in Chinese
11 Mar 90 p 1

[Text] List of Standing Committee Members Elected During the Third Session of the Sixth Liaoning Provincial Chinese People's Political Consultative Conference [CPPCC] (total of 18 names, listed in stroke order)

Yu Yongxiang [0060 3057 4382] (Mongolian ethnicity); Wang Haoru [3769 4110 5423] (female); Lu Yubo [4151 5148 3134]; Bai Fei [4101 7236] (Hui ethnicity); Qu Xingchun [2525 5887 2504]; Zhu Hanhua [2612 3211 5478]; Ji Zhong [4764 0022]; Li Li [2621 6091]; Yang Chunsheng [2799 2504 3932] (Mongolian ethnicity); Wang Lin [3076 2651]; Zhang Bolun [1728 0130 0243]; Zhang Zhenya [1728 2182 0068]; Yu Wenqing [6735 2429 3237] (female); Zheng Hua [6774 5478]; Zhao Guohong [6392 0948 4767] (female); Yuan Wenhua [5913 2429 5478]; Guo Yanjie [6753 3601 2638]; Han Dezi [7281 1795 3320].

Newspapers Meet To Uphold Party Spirit

001304142390 Beijing XINHUA Domestic Service
in Chinese 0003 GMT 2 Apr 90

[By correspondent Wang Ronggui (3769 2837 8106)]

[Text] Harbin, 2 Apr (XINHUA)—The first coordinating meeting of evening newspapers published in northeast China recently concluded in Qiqihar.

Responsible comrades of major evening newspapers published in northeast China attended the meeting. The meeting profoundly discussed such questions as how to uphold the principle of party spirit in journalism and how to publicize the efforts to build a socialist material and a socialist spiritual civilization. The meeting also appraised the performance of evening newspapers in northeast China.

Taiwan Reportedly To Charter Plane for Asian Games

OW 1304141290 Beijing XINHUA in English
1321 GMT 13 Apr 90

[Text] Hong Kong, April 13 (XINHUA)—Chinese Taipei will fly its Asian athletes to Beijing by a chartered plane from a foreign air company, according to reports reaching here on Friday.

The reports said that the Chinese Taipei Transportation Ministry had approved the plan of chartering a plane to fly for the Beijing Asian Games via a third country or region.

The reports said that chartering planes and nonstop flights between Taipei and the mainland are different matters but it may help set up a nonstop flight between Beijing and Taipei in the future if the chartered plane model turns out a success.

'Unprecedented' High-Level Power Struggle Within KMT

900N04404 Taipei TZULI WANPAO in Chinese
11 Feb 90 p 2

[Report by Hu Yuan-hui (5170 0337 6540) and Hu Hsing-lai (5170 2502 0171) "Behind the Scenes Maneuvering To Select Presidential and Vice-Presidential Candidates for the Party Congress"]

[Text] Like the complex crisis over electing party delegates and chairmen that erupted when Chiang Ching-kuo died two years ago, an unprecedented power struggle has once again struck the Kuomintang (KMT) during the current election of the 8th president and vice-president.

Even though there are no signs of this struggle from the outside and Li Teng-hui [2621 4098 6540] and Li Yuan-ts'u [2621 0337 4662], the "Li Partners," are continuing their partnership as before, according to a number of high officials in the KMT in recent days the party's power structure has been outwardly calm but inwardly tense, and yesterday, there was even an attempt to overthrow the current party leadership.

Li Teng-hui's plan to choose the current Secretary-General Li Yuan-ts'u as his second-in-command to help him promote his own agenda is a result of a lengthy period of planning and consideration. Li Teng-hui is energetically working with the KMT's troops to pave the way for Li Yuan-ts'u's election to office, unlike the alternative plan to overthrow the present power structure, this is certainly overly removed from the reality of things, and the result is that counterattacks have been occurring and in the long run an undercurrent of opposition is developing.

Sources indicate that except for the endless shouting of those who back Chiang Wei-kuo (5592 4825 0948), the other powerful figures within the KMT can plainly see that if Li Teng-hui's plans come to fruition, their own positions will become powerless, or even be lost. Therefore, on the eve of the Party Congress, they have decided to go all out and attack, launching an offensive, and even emerged a kind of "alliance" among themselves. This has caused Li Teng-hui's forces to panic.

This offensive was mainly launched from within the party, and has spread to include Executive Yuan President Li Huan [2621 3562], Judicial Yuan President Lin Yang-kang [2651 3152 3763], National Security Council General-Secretary Chiang Wei-kuo, and even such people as Presidential Political Advisor Hsieh Tung-min [6200 2639 7036], Minister of National Defense Hao Pai-ts'un [6787 2672 2625], and KMT Central Committee Deputy Secretary-General Kuan Chung [7070 0022]. Because the behind-the-scene movements are very secret, up until quite recently it was not completely clear just how strong the alliance was, who was involved and what their intentions were.

According to a KMT insider, in recent days powerful Party insiders have been more actively communicating with each other. For example, Li Huan on Thursday afternoon went to see Hao Pai-ts'un, and yesterday at noon Hsu visited Li Huan, there is no way of knowing what these two discussed in private. Both yesterday and today, people in upper level political circles spread the word about a "partnership" in which Lin Yang-kang would run for president, Chiang Wei-kuo for vice-president, and Li Huan would continue as Executive Yuan President. In addition there is also talk of Lin Yang-kang and Li Huan running for president and vice-president.

Regardless of how close to reality these internal rumors may be, it is difficult to conceal the fleeting activities in the KMT. Not only is it already public knowledge that Li Teng-hui and Lin Yang-kang each met in succession with Presidential Candidacy Board Chairman Hsieh Tung-min, it is even known by some that at a banquet last night held by members of the Central Committee, some people clearly expressed the hope that everyone would support the use of secret ballots in selecting candidates for the presidential election. This makes Li Teng-hui's electoral campaign organization even more nervous. A Central Committee member who was at this banquet has revealed that the dinner was hosted by a high official in the Central Committee and the atmosphere was a stealthy one, as though they were plotting a rebellion.

It is reported that yesterday morning right after Li Teng-hui went to pay his respects and to arrange meetings with party elders Hsieh Tung-min and Yuan Shou-ch'ien (5913 1343 6197) to seek their support, he then received information about the plans of opposition forces in the Party. Starting in the afternoon, he began working to strengthen his position. In order to strengthen his ties to the military, last night he first visited former Defense Minister Cheng Wei-yuan (6774 3634 0337) and then Hao Pai-ts'un; from this, one can see that the situation is grave. By early this morning, Li Teng-hui's organization had reached the end of a phase. Some staff members feel that a close look at the situation suggests that Li Teng-hui should be able to scrape by, but they still feel that in the worst case, if the situation gets out of hand, he would announce his withdrawal from the race.

As for those who would oppose Li Teng-hui and Li Yuan-ts'u, how to topple them is an important point worth considering, according to sources within the party, after researching the matter these people feel that the best way is for the Central Committee to select the presidential and vice-presidential candidates by ballot, and this will also be the most acceptable method to others. Since the KMT moved to Taiwan, the selection of presidential and vice-presidential candidates has always been by acclamation, but today the calls for democratization of the party grow louder each day, and if they could use selection by ballot as a way to address these calls, it would be an easy way to gain an advantage. Yesterday, a group of five scholars affiliated with the KMT who have fairly close ties to Li Huan jointly signed

a public statement urging the Party Congress to use secret ballots to pick the presidential candidate. Under this condition, both supporters and opponents of Li Teng-hui's power structure have considered this approach and both sides still predict victory; furthermore, they are going all out to win Central Committee members to their side.

No matter what the result of this war within the party may be, this "rights revolution" has already taken hold within the KMT, and even if the KMT can survive the current emergency, the issue of rights will lurk underneath the surface, and perhaps explode into the open.

Liu Kou-tsai Retires After 40-Year Political Career

900504408 Taipei TZULI WANPAO in Chinese
4 Feb 90 p 2

[Article by Ch'en Ts'ui-hien (7115 5050 5571)]

[Text] Looking rather sad, Legislative Yuan President Liu Kou-tsai [0491 7059 2088] yesterday held a press conference to formally announce his retirement as president and Legislative Yuan committee member, allowing himself a rest after a political career of more than 40 years. This sharp-witted, steely tempered elder of Taiwan's political world occupies a unique position in the political ecology, and when he came out of his calm shell and exerted himself to stride the road of politics, he rose to the highest peaks of power and became a symbol of the transition of power for the entire people.

Liu Kou-tsai grew up in a doctor's household in Miaoli; he was the only boy in the house. At an early age he left to study in Japan, and after graduating from Tokyo Imperial University Law School, he passed the Japanese judicial civil service exam. Obtaining Japanese civil service credentials was an achievement to be dreamed of by the Chinese in Japan-occupied Taiwan, but Liu Kou-tsai did not have this ambition, the "Contemporary Record of Famous People" says. Because Liu did not wish to don the garb of a Japanese official, he took up the legal profession to defend the rights of his people and to become a "champion of justice." In his thirties, a student of the martial arts of judo and sword fighting, Liu Kou-tsai was dissatisfied with the oppression of the Taiwanese by Japanese police and in his anger sought to "teach them a lesson." Liu Kou-tsai still enjoys talking about those times, and his acuity and strength manifest themselves even now.

Gaining Power at a Self-Regulated Pace

At the beginning of 1947 the "28 February Incident" occurred; because of Liu Kou-tsai's imprisonment, and afterwards it is said that Colonel Liu Ting-kuo [0491 1353 0948] intervened on his behalf with the military authorities and he was thus fortunately rescued. From this time on, Liu Kou-tsai and Liu Ting-kuo were political allies in Miaoli and became the controllers of a regional Liu "faction," in opposition to the "Huang faction" led by Huang Chun-chin [7806 6511 6855]; this

competition lasted several decades. Liu has been a provincial upper-house assemblyman, a provincial lower-house assemblyman, and a provincial government committeeman; he has had smooth sailing for his entire career. In the 1969 supplemental election of people's representatives for free districts, Liu got close to 560,000 votes for the Legislative Yuan, the highest of any candidate. In 1972, when "indigenous" was the vogue in the political world, because of his Taiwanese background Liu Kou-tsai was nominated for Vice-President of the Legislative Yuan. From regional parties and factions, a senior leader had scaled the political peaks and occupied a key position in the central government; it was his fate to be the first to do so.

The fact of his provincial affiliation was certainly an important reason for Liu's smooth sailing, but it also became a difficult obstacle for him at first. Within a Legislative Yuan composed mainly of mainlanders, Liu Kou-tsai's modesty and courtesy would not yet be sufficient for building support; the token definition of Vice-President of the Legislative Yuan far surpassed the real power of the office. In 1984, in his third election for vice-president along with Ni Wen-ya [0242 2429 0068] for president, the "discussion meeting faction" seniors, in order to keep Liu from getting more votes than Ni Wen-ya, created 40 false ballots to dampen Liu's success. With his strong and honest temperament, Liu Kou-tsai was finally unable to restrain himself and shouted, "I refuse to take the oath of office under such conditions!" Finally the Central Committee had to reconcile the matter and only then was it settled.

Making political waves, he continually pushed for change; the spotlight more and more rested on Liu Kou-tsai, but his upright and lofty style caused him to repeatedly become the subject of debate and controversy within the Legislative Yuan. Unsatisfied because Lin Tung [2651 2767] was always waving the party whip in his face, Liu Kou-tsai would angrily throw at him the words "I won't stand for it!" and cause so much agitation that party affairs officials were constantly trying to calm things down. Last April, a court-ordered investigation of the central government budget induced Chu Kao-cheng [2612 7559 2973] to jump on the table and shout "beat up the chairman." Liu Kou-tsai suffered through this attack, and then in front of everyone "showed his injuries," causing with a great uproar. When Ni Wen-ya was resigning as president of the Legislative Yuan, acting president Liu Kou-tsai again demonstrated his steely disposition by ordering the police into the legislative chamber to forcibly "put the whole case to a vote" and pass regulations for retirement for the first time in 40 years. These actions caused controversy everywhere, and legislators have different opinions about his ability to preside over the Legislature; some writers have at various times conjectured that his motives for such forceful behavior lie in seeking legitimacy for himself, thus explaining the continuous attacks.

But since February of 1989, when Liu Kou-tsai was elected President of the Legislative Yuan after Ni Wen-ya

resigned, his administrative style has changed greatly. During the last session, it was reported that when the new Vice-President of the Legislative Yuan, Liang Su-jung [2733 5126 2051] called in the police to maintain order, Liu Kou-tsai went his own way and directed the police to leave. When the Democratic Progressive Party started a resignation campaign, he opposed the deployment of police to deal with them; last September, when a group came to present a petition, Liu personally received them and even boarded the leading vehicle to address the crowd. Afterwards he said, The Legislative Yuan is not an arrogant place! I cannot forget the basic role of "representing the people." Following the securing of his position and the change in his role, Liu Kou-tsai slowly adjusted his behavior.

In terms of his attitude toward life, Liu Kou-tsai continues to grow and progress with energy and diligence. In 1970, Liu Kou-tsai at the age of 60 received a doctorate in law from Kansai University in Japan. In order to improve his language and demonstrate his abilities, not only does he often read adventure novels out loud to correct his Hakka-accented mandarin, he also reads Japanese books and newspapers every day to broaden his mind. In addition, he has a tutor who coaches him in English. But the waves of change rolled forward relentlessly despite Liu's energy and self-discipline; the pressures to resign increased daily and he was compelled to face them.

Lack of Universal Approval of His Methods

Liu Kou-tsai is not ignorant of current trends; he has long had the notion to resign. During a conflict in the Legislative Yuan, he said, "It's miserable being president," and has also expressed the desire to "resign, and go abroad to do research." To help his son, Liu Kuo-chao [0491 7059 2507], in his efforts to enter the national assembly, Liu Kou-tsai publicly announced, I don't wish to remain long in this position, and not to live my life normally." However, with all the tumult of the elections, Liu Kou-tsai temper has risen again and he now denies having ever said, "When my son runs for office I'll resign" and similar statements, and those around him were continually saying "The Legislative Yuan presidential candidate has not been set yet."

Some thought Liu Kou-tsai would stay in his position of power, that his change in attitude was not permanent.

Those close to Liu Kou-tsai said his main goal was not to hang on to his power, but rather to slowly proceed, meeting with policymakers and soliciting opinions, in an honest and upright manner. With his strong will, Liu Kou-tsai feels he should be listened to, but since returning from a trip abroad, when Central Committee General Secretary Sung Ch'u-yu [1345 2806 3842] announced that the candidates for President and Vice-President of the Legislative Yuan had been selected, he then chose the path of self-respect and having his name gone down history—he resigned as President of the Legislative Yuan and as Legislative Yuan committee member, and stepped off the political stage.

Compelled by circumstances to choose to retire from political life, both Liu Kou-tsai and his family have strong emotions about it. Out of his seven sons and daughters, his second son Liu Kuo-chao has already successfully run for Legislative Yuan committee member, following in his father's footsteps; in Liu Kou-tsai's heart, perhaps he rather feels that there is a successor, thus completing his ambition.

Health Administration Identifies AIDS Carrier

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10 Apr 90*

[Text] Taipei, April 10 (CNA)—The National Health Administration [NHA] announced that the nation's 142nd AIDS virus carrier had been identified.

NHA said that the newly identified AIDS virus carrier, a 36-year-old married government employee, is living in Taipei. He tested positive for the HIV virus while being treated for venereal disease.

According to NHA, the virus carrier had a homosexual romance when he was a university student and sexual relations with prostitutes recently.

NHA could not get in touch with his wife as the man did not want his wife to know about the matter.

Poll Indicates Satisfaction With Status Quo

90CM0060B Hong Kong MING PAO in Chinese
9 Mar 90 p 20

[Text] Dear Editor:

To understand what the residents of the Southern District think about Hong Kong's status quo and future prospects, the Aberdeen Kaifong Welfare Association and its community service center conducted a poll called "Opinions of Southern District Residents on the Future of Hong Kong" between last August and September. Topics covered in the survey included confidence about Hong Kong's future, migration choices, and relations among China, Britain, and Hong Kong. The center hopes that the survey would help it better understand the residents and provide data and a direction for determining what services to provide in the future. The data collected has been presented to the interested quarters for their reference.

The poll targeted the 21 to 49 age group. Using random sampling methods, 483 people from the Southern District's seven subdistricts were interviewed by questionnaire. Of these, 55 percent were male, 45 percent female. About 60 percent were between 21 to 32 years of age and 70 percent had a secondary education or above. The interviewees were evenly divided between those who were married and those who were single.

According to the poll, about 80 percent of the interviewees were satisfied with the status quo in Hong Kong, including the degree of freedom, economic development, and money-making opportunities; however, 30 to 40 percent expressed dissatisfaction with the extent of democratization and the coverage of social welfare. Seventy-five percent said the 4 June incident had affected their confidence in Hong Kong's future, but as many as half said they were still confident in Hong Kong's future. A majority of the interviewees believed economic stability and the formulation of a basic law suitable for the people of Hong Kong would make them more confident in the future of the city.

As for the option of migration, the interviewees were evenly divided between those who had considered migrating and those who had not. Note that even the former had mixed feelings about migration. Most of them considered migrating only because they had lost confidence in the Chinese Government after 4 June (40 percent) and because they had no confidence in Hong Kong after 1997 (35 percent). They were not completely optimistic about life in a foreign country. Ninety percent were satisfied with the political stability there, but over 70 percent said they expected fewer opportunities to make money, racial discrimination, and loneliness. Also, 50 percent were not confident they could continue in their current line of work. This shows that people who have considered migrating have many misgivings. Nevertheless, they wanted to migrate. This phenomenon should be taken seriously, examined, and dealt with.

Of those who did not want to migrate, 30 percent said they did not meet migration requirements. Another 10 percent stayed because they were sentimentally attached to Hong Kong. Most of them favored no change in the present way of life (90 percent) and wanted to make as much money as possible and enjoy life (60 percent). Nevertheless, more than 90 percent said people should take an active part in Hong Kong affairs. Concerning Hong Kong's overall development, over 90 percent of the interviewees considered the maintenance of economic growth and the establishment of a comprehensive welfare system the top priorities.

About the roles played by the Chinese, British, and Hong Kong Governments in strengthening Hong Kong people's confidence in the future, 40 percent said the people of Hong Kong should work hard to keep the economy going and maintain social stability. Asked what the government should do to stabilize the people's confidence, 20 percent each called for direct election, civics education, and more tertiary education.

As for the British Government, 40 percent of the interviewees thought Britain should draw up for Hong Kong a human rights law recognized by the world and 30 percent said Britain should urge China to abide by the Sino-British joint declaration. Moreover, 90 percent objected to the idea of giving the right of abode in Britain to just four categories of people.

If the Chinese Government wants to keep the confidence of the people of Hong Kong, more than 90 percent of the interviewees believed it should revive its open policy and 80 percent thought the Chinese Government should introduce political reform and draft a basic law suitable for Hong Kong. Be that as it may, between 70 and 80 percent of interviewees were not confident that China would introduce political reform or that it would live up to the spirit of the rule of law.

Aberdeen Kaifong Welfare Association

Residents Seen Indifferent to Basic Law

90CM0060A Hong Kong MING PAO in Chinese
5 Mar 90 p 4

[Text] A public opinion poll has found that more interviewees expressed dissatisfaction with the draft Basic Law adopted by a general session of the basic law drafting committee in Beijing. Still, a majority (about 60 percent) did not have the slightest interest in the draft Basic Law.

The poll also shows that the migration trend among the people of Hong Kong has returned to the level in the corresponding period last year (that is, before the 4 June incident). Only 30 percent said they hoped to migrate, their favorite destinations being Canada, the United States, and Australia, in that order.

The poll was conducted by the Hong Kong Data Collection Center, an independent market research organization, between 20 and 23 February. Five hundred citizens, ranging in age from 18 to 59, were chosen using systematic random sampling methods and interviewed by telephone. The response rate was 67 percent.

Twelve percent of the interviewees said they were satisfied with the draft Basic Law and only 15 percent said they were dissatisfied. Another 12 percent said they were neither satisfied nor dissatisfied and 59 percent said they had no opinion, which shows that most citizens do not have the slightest interest in the Basic Law.

Of those who expressed dissatisfaction with the draft Basic Law, a third said the law reflected only Beijing's wishes, while the opinions of the people of Hong Kong had been ignored. Another third said the pace of democratization under the draft Basic Law was too slow. Twenty percent had no confidence in the Basic Law because they said the Chinese Government could revise it anytime. Fifteen percent said the Basic Law gave the central government too much power.

Only 11 percent of the interviewees said they were satisfied with provisions in the Basic Law setting up Hong Kong's political system, which have been highly

controversial. On the other hand, only 14 percent expressed dissatisfaction and 66 percent said they had no opinion. The remaining 19 percent said they were neither satisfied nor dissatisfied.

Of those who expressed dissatisfaction with the political system to be set up, 30 percent thought the pace of democratization was too slow, 24 percent said the number of directly elected seats on the Legislative Council was too small, and 21 percent had no confidence in the Chinese government.

Concerning the migration trend among Hong Kong residents, the poll shows that 30 percent of the interviewees said they hoped to migrate, about 7 percentage points less than the preceding quarter (after the 4 June incident) and the same as the level a year ago (before 4 June).

Fifty-nine percent of the interviewees said they did not want to migrate, while 10 percent said they had not yet decided.

Almost 40 percent of the interviewees who wanted to migrate chose Canada as their destination, 20 percent picked the United States, and 18 percent Australia.

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